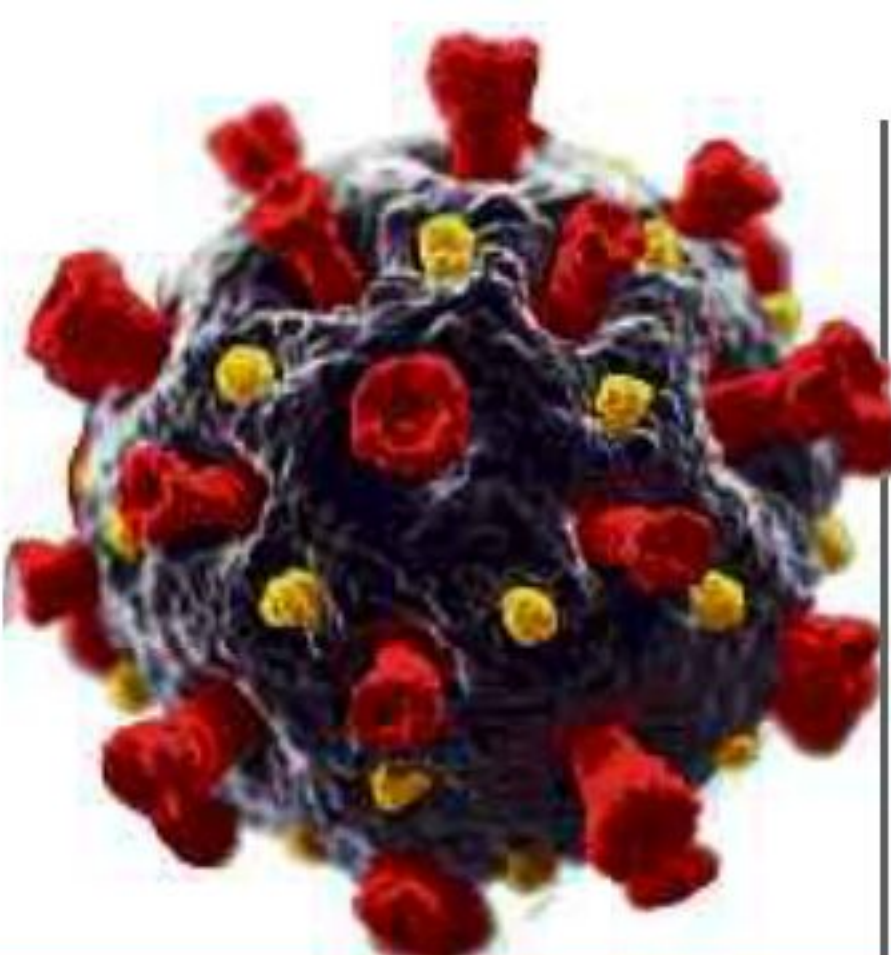


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Raid on the rich

What the Treasury's tax plans
mean for your money

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From the editor-in-chief...



Now is not the time. That's what everyone says about sorting out the public finances. They're right. Of course it isn't. But just because it isn't time to do it, doesn't mean it isn't time to talk about it. There is a group (supporters of Modern Monetary Theory – MMT) who believe that debt doesn't matter. If you have your own central bank, they say, you can print as much as you like and just use taxes to slow down the economy if inflation begins to tick uncomfortably high. We don't buy this – and we don't think chancellor Rishi Sunak does either.

That's largely because we know that no one will ever correctly guess when it is time to raise tax (inflation moves fast once it starts – see Turkey, page 7). But it's also because we know that even if a clever academic does guess right, politicians are unlikely to listen. Printing money makes you popular (in the short term at least). Raising taxes does not. Still as William White, the ex-chief economist of the Bank for International Settlements (a remarkably honest international organisation) notes on themarket.ch website, what we do need to see is "clear guidelines from government about how they intend to get debt levels down in the future".

There are several theoretical ways to do this. You can write it off (we don't need to discuss this one – the UK has never actually defaulted on its debt). You can do



Rishi Sunak: dealing with the debt won't be easy – for investors

"We will all be 'encouraged' to help our governments finance the post-virus recovery"

as Sunak appears to be threatening and raise taxes. In this political environment that means taxes on "the rich"; in the UK that appears to mean capital gains tax (CGT). It won't work, partly for the reasons we lay out on page 10 (endless side effects and complication) and partly because it can't begin to raise enough to touch the sides of a debt-to-GDP ratio that has soared past 100%.

You can aim to grow your way out of the debt, or you can speed things up by trying to create inflation so that the value of your debt falls in real terms (is "inflated away"). But this can't work if the interest rate on your debt keeps going up to compensate for inflation – so you need a way to keep rates low even as prices rise. Enter financial repression – where the private sector is effectively forced to buy government bonds to keep yields below

inflation. We've been listening to strategist Russell Napier on this for years and telling you to watch for it. But it looks like it is getting closer. The Bank of England governor and the chancellor have both been talking recently about how we can be "encouraged" to offer our capital to finance post-Covid-19 recovery. I am sure that in our new age of authoritarianism they will find a way. All of this represents a potential long-term transfer of wealth from savers to debtors (and the private sector to the state). You should worry about rising CGT (it isn't indexed to inflation and so is a huge stealth

wealth tax already). But you should worry an awful lot more about being forced to watch your wealth being eaten away as your money is encouraged into what Russell calls the "killing fields of fixed interest" in an age of inflation.

One final thing. We've often suggested you hold Japanese equities. Here's a hint as to why – their long-term resilience. Of the 5,500 companies in the world, 55% are Japanese. This includes the oldest hotel in the world – a hot spring hotel business in Yamanashi, founded in 705. For more, listen to this week's podcast (moneyweek.com/podcasts) with Japan expert Peter Tasker. He's good. I think you will like it.

Merryn Somerset Webb

Merryn Somerset Webb
editor@moneyweek.com

Family feud of the week

Princess Camilla Crociani de Bourbon des Deux Siciles (pictured) faces a fine of "millions" for contempt of court if she refuses to reveal the location of a £50m Gauguin painting that has been caught in the crossfire of a family feud, says Jessica Carpani in The Daily Telegraph. The warning came in the latest hearing of a "bitter ten-year dispute" at the Royal Court on Jersey. The dispute began in 2010 when Camilla's mother, Italian actress Edoarda Crociani, transferred £100m of art and investments into her own name from a trust fund set up for her daughters, Camilla and Cristiana. In 2011, Cristiana went to court, worried that she was being blocked from her inheritance. In 2017, the Royal Court ordered Edoarda to rebuild the fund, and told Camilla to give details of what she knew of her mother's wealth. She allegedly refused to disclose the location of the painting and other valuables. Her lawyer says she does not know where it is; the court is sceptical.



©Getty Images

Good week for:

Fashion aficionados rejoice: retailers left with "dead stock" due to pandemic-enforced closures are selling their past-season clothes on eBay, often at a discount, say Louise Eccles and Sam Chambers in The Sunday Times. Since the first lockdown in March, "eBay has begun to resemble a virtual high street" as chains such as Wallis, Dorothy Perkins and Jack Wills launch "shops" on the website.

Cycling commuters could see the cost of a new "e-bike" cut by up to a third under government plans to subsidise a "sweat-free" alternative to regular bicycles, says Graeme Paton in The Times. A taxpayer-backed scheme looks set to be launched in spring, aimed at those riding in business outfits and the less fit, to increase the number of people using battery-assisted bikes.

Bad week for:

A gym owner was fined £67,000 after he refused to close during the second lockdown despite the police's efforts to shut his premises, reports Jordan King in Metro. **Andreas Michli**, 34, refused to close Zone Gym in north London, citing its "low infection rates". The council has also ordered Michli to pay £7,300 in legal costs and £3,000 for the cost of sending more than 30 officers to barricade the gym.

An art expert has claimed that a portrait of Bonnie Prince Charlie displayed in the **Scottish National Portrait Gallery** is not authentic, says Alice Walker in The Scottish Sun. Robin Nicholson, an expert on Jacobite art, believes the painting could be by "lesser artist" Cosmo Alexander, which would reduce its worth from an estimated £1m to under £200,000.



Stocks surge to new record highs



Alex Rankine
Markets editor

“Two vaccines are better than one,” says Tara Lachapelle on Bloomberg. This week brought positive news about trials of Moderna’s vaccine for Covid-19 (see page 9). The update gave global markets a profitable start to the week, with America’s S&P 500 and the MSCI World Index both hitting record highs on Monday. The FTSE 100 rose to its highest level since June and has gained more than 13% so far this month.

A global bull market

The rally took a break the following day but, arguably, markets should be even more upbeat, says Nils Pratley in *The Guardian*. The Moderna vaccine is easier to store and transport than the Pfizer jab that made the headlines last week.

That could speed up the daunting logistical challenges of rollout. For “airlines, events and hospitality... it really matters whether a vaccination programme takes six months, a year or more”.

The bulls are out in force. Last week’s vaccine news triggered a \$44.5bn flood of inflows into global stock funds, say Eric Platt and David Carnevali in the *Financial Times*. That is the biggest weekly inflow in “at least two decades”.

American bulls are not finding many bargains, though. On a cyclically adjusted price/earnings ratio (Cape) of 31.26 the US market is currently more expensive than it has been for 96% of the time since 1881, says Mark Hulbert for marketwatch.com.

No wonder, then, that new research from Kevin Lansing, an adviser at the Federal Reserve Bank of San Francisco, suggests that US stocks are poised to



“barely outperform inflation” over the coming decade.

Value stocks will rise

The US stock rally is already showing “signs of exhaustion”, says Cormac Mullen on Bloomberg. The market’s heavy technology weighting helped the S&P 500 outperform most other major bourses this year through early September. Yet since then the US has underperformed the MSCI World Ex-USA Index by 4%. The baton has now passed to markets in Europe and Japan, which boast a bigger stable of value stocks (see page 20).

Since 2009 the MSCI USA Value Index has returned 246%, against 661% for the equivalent US growth index, says Jon Sindreu in *The Wall Street Journal*. Value

seems due a catch-up rally, but history suggests that such periods don’t last very long. After their re-opening bounce, “old economy” shares are likely to face the same problems as before Covid-19: “ultra-low interest rates”, poor returns on equity and, for financial stocks, “strict banking regulation”.

Vaccine news could bring higher interest rates than the market expects, says the *Financial Times*. Eye-watering valuations are partly the result of years of easy central-bank money. Yet US ten-year Treasury bond yields have been ticking up of late, reflecting falling bond prices. This suggests greater confidence that growth will return and long-term interest rates will rise. “Lower-for-longer” interest rates may not stay low for quite so long after all.

The smart money heads for emerging markets

Asian economies, including China, Japan, Australia and many southeast Asian nations, have signed the Regional Comprehensive Economic Partnership (RCEP – see page 18). Asian economies are already in good spirits, says Laura He on CNN. The region has largely dodged the worst of the pandemic. The RCEP deal will only reinforce the eastward drift of the global economy’s centre of gravity.

Not everywhere in Asia is so fortunate. India’s economy has been hit hard by Covid-19, but its BSE Sensex index hit a new record high this week on positive vaccine trial news. The index has gained 69% since the mid-March low. Indian equities have also been boosted by the unwinding of



Vietnam is likely to profit as multinationals rethink their supply chains

US election risks, says Buttonwood in *The Economist*. With less to worry about at home, American money managers are ready to go shopping abroad. Emerging markets certainly have some catching up to do: the MSCI

Emerging Markets Index has gained just 3% over the past ten years and remains short of its 2007 all-time high. While some east Asian emerging markets have soared of late, Brazil and South Africa have lagged. The case for emerging

markets has long rested on powerful demographic trends, say Tony Roth and Meghan Shue on CNBC.com. But today the central role of Asian economies in the “digital revolution” is just as important.

As well as manufacturing most of the world’s gadgets, Asian consumers are also the most enthusiastic digital adopters. The region’s economies are “years ahead” of America’s when it comes to “contactless payments” and “facial recognition software”. Post-pandemic, the likes of Vietnam, Indonesia and India are likely to get a boost as multinational companies re-think their supply chains. “The smart money” is betting on emerging markets.

A monetary train-wreck in Turkey

Turkish shares have rallied on hopes that a period of monetary misrule is coming to an end. Inflation is at 12%, but strongman leader Recep Tayyip Erdogan believes in the “bizarre” idea that higher interest rates cause inflation rather than curb it, says The Economist. The central bank has thus resisted desperately needed rate hikes this year, instead “squandering more than \$100bn” in currency reserves in a forlorn attempt to defend the currency over the summer.

The Turkish lira has lost more than 60% of its value against the dollar over the past five years owing to poor monetary policy. Yet this month has seen the replacement of both the central bank governor and finance minister. The lira has rallied on hopes that they will usher in a period of more sensible policy, while local stocks are up by 14% so far this month.

Turkey’s economic management has long been a “train-wreck”, writes Craig Mellow in Barron’s. A buoyant European economy and plenty of cash from tourism helped Turkey dig its way out of its last currency crisis in 2018, but this year tourists will be staying at home. Erdogan didn’t learn his lesson from that episode and soon returned to “pumping credit...revving inflation and depressing the lira again”, precipitating the current problems. The recent stockmarket jumps show that the brave can make a buck in Turkey, but it looks more like gambling than investing.

The backlash against Big Tech

The Big Tech backlash has come to China, says Jacky Wong in The Wall Street Journal. Regulators recently suspended Ant Group’s \$37bn stockmarket flotation at short notice. Now they have proposed new anti-monopoly guidelines that could hit Alibaba and Tencent, the internet giants whose social-media apps and payment and e-commerce platforms dominate daily life in China.

The news rocked Chinese tech shares, says Megha Bahree on Al Jazeera. Hong Kong’s Hang Seng Technology index retreated by 11% over two days last week. China has previously taken a largely “hands-off” approach towards its domestic tech titans, but Covid-19 has made the issue of market concentration unavoidable. E-commerce accounted for roughly one-quarter of sales in China last year, but that figure is “edging towards 30%” due to the pandemic.

The draft rules would ban such practices as “selling goods below cost... and exclusive sales agreements”, says Nikki Sun in Nikkei Asia. Regulators are also concerned about the rise of online loans, which are not subject to normal bank regulations. The move “strikes at the heart” of a business model that depends upon walled technology ecosystems and “scale economies”, says a Gavekal Dragonomics note.



A gridlocked Congress may be unable to agree antitrust measures against Big Tech

The new safe haven?

US Big Tech has so far received less regulatory pushback, says David Goldman in the Asia Times. The share of the five biggest tech players on the S&P 500 by market capitalisation has doubled over the past decade to 22%. Microsoft, Google and Apple collectively have one-fifth of all the cash held by companies on the index. Some 70% of “all digital advertising revenue...goes to Facebook and Google”. Indeed, so dependable are these revenue streams that the tech giants now “trade the way utilities used to”, closely tracking movements in bond yields.

The prospect of more regulation has been a “dark cloud lingering over the tech sector”, Daniel Ives of Wedbush told Teresa Rivas in Barron’s. Yet the US election results may

deliver a “goldilocks scenario” for tech, with a gridlocked Congress unable to agree on antitrust measures. Biden is also likely to stabilise relations with China, helping firms such as Apple whose supply chains are “caught in the crossfire”.

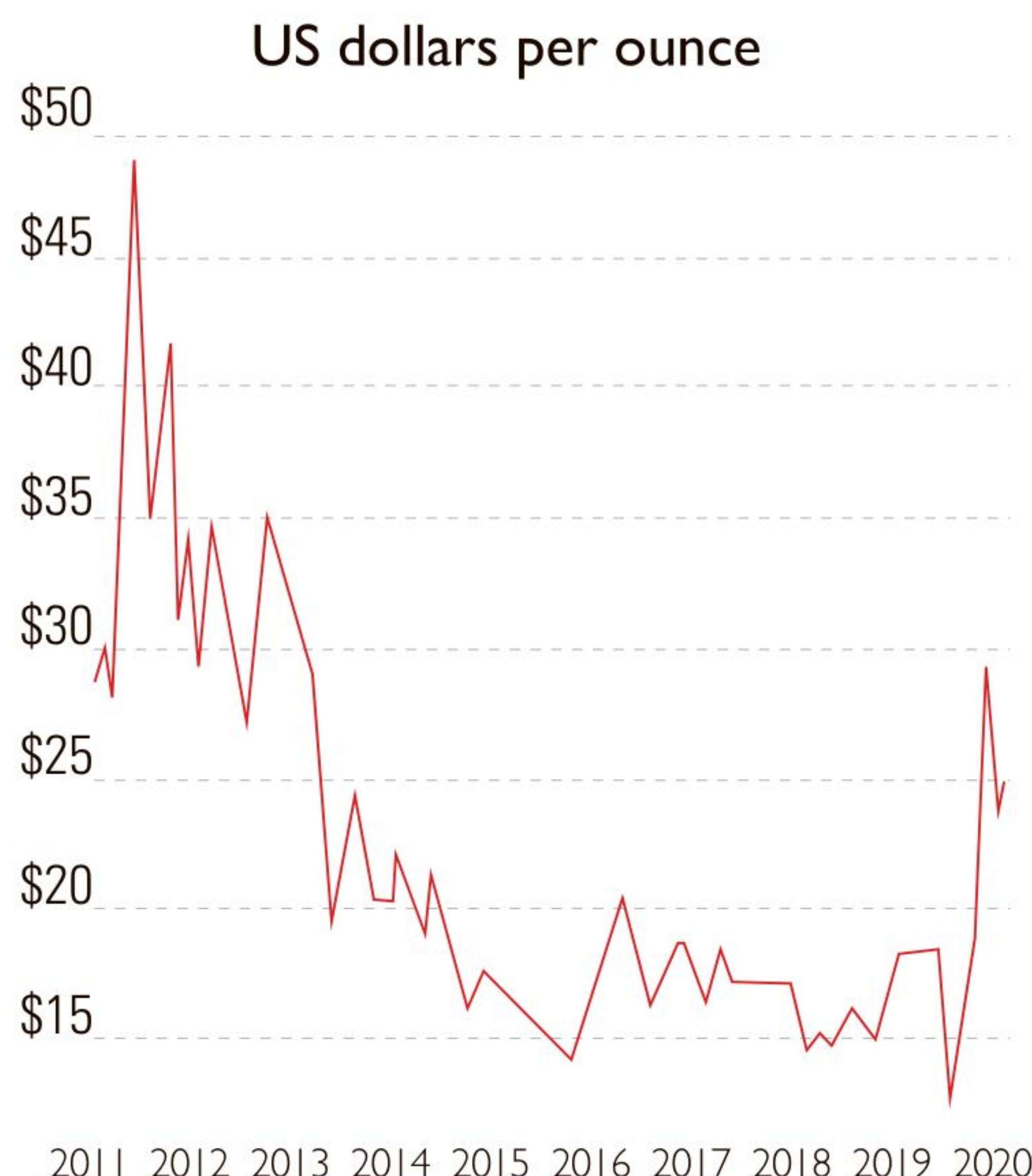
In recent years successful investment performance has boiled down to buying and holding “popular technology names” and watching them soar, says Michael Mackenzie in the Financial Times. Yet it is value stocks that have been shining of late (see page 6). Nevertheless, investors will continue to put a premium on the tech sector’s superior growth prospects and strong cash flow, which give it defensive characteristics, says Jim Paulsen of Leuthold Group. “Tech will underperform, it will not crater.”

Viewpoint

“Most of us wore Clarks shoes as children... So you may have been glad to hear that Clarks is to be rescued... by a £100m capital injection from LionRock Capital, a Hong Kong private-equity firm, which will acquire a majority holding while... the Clark dynasty — descendants of the brothers Cyrus and James Clark who began making sheepskin slippers in 1828 — retain a minority. [Part]of the deal, however, is a ‘company voluntary arrangement’ that will force the landlords of Clarks’ 320 shops... to accept a percentage of revenues rather than a fixed rent. For 60 of the shops, this apparently means nil rent. Is that... equitable? Landlords are often labelled ‘greedy’ when tenants are struggling to survive, but... this [time] I find my sympathies leaning the other way. Cyrus and James, devout Quaker believers in fair dealing, must be spinning in their graves.”

Martin Vander Weyer, The Spectator

Silver will regain its shine



Silver has slipped from its seven-year high of \$28 an ounce reached in August. But its run looks far from over. Encouraging progress with vaccines has eroded some of the metal’s appeal as a safe haven, but monetary policy remains extremely loose and interest rates historically low (silver has no yield, so low real interest rates bolster its relative appeal). Government stimulus programmes also point towards higher eventual inflation, while there is scope for silver to profit from the economic recovery they will help stoke: it is an industrial as well as a monetary metal. Solar energy comprises 10% of overall demand for silver, says Callum Keown in Barron’s, so it bodes well that the global drive to boost infrastructure is skewed towards solar energy.

MoneyWeek's comprehensive guide to this week's share tips

Six to buy

Morgan Stanley *Investors Chronicle*

There are plenty of reasons to dodge the banking sector: rock bottom interest rates and economic weakness will weigh on profitability over the coming years. An “ever-shifting” regulatory backdrop means investment banks are no haven, but Morgan Stanley is better placed than most. Its growing wealth-management and investment-management divisions provide valuable diversification, and the bank has little exposure to the rickety consumer credit and mortgage markets. On a price/earnings (p/e) ratio of 9.5 the shares have room to close a valuation gap with peers. \$51.70

Saga

Interactive Investor
Shares in this over-50s insurer and cruise operator have jumped on hopes for the vaccines in development. The insurance side has broken even this year thanks to lower vehicle claims as lockdowns keep more people off the roads. The outlook now “hinges” on the cruising division. The industry has plenty of devoted



fans and Saga's premium cruise offering occupies an “attractive marketing” niche. If you think new vaccines will help release “pent-up demand” from prosperous pensioners next year, then buy. 183p

Schroders British Opportunities Trust

The Mail on Sunday
The rout in the London market has left many of the best small and medium-sized British businesses strapped for investment cash, hampering their growth prospects. This soon-to-float trust aims to remedy that problem. The plan is to invest in about 30 to 50 companies split evenly between publicly listed and private businesses. Schroders has a good track record and the trust's liquid structure will save investors from a Woodford-style meltdown if things go wrong. The deadline to apply

for the share issue is November 26. “A patriotic buy.” 100p

Starbucks Corporation *Shares*

This “coffeehouse colossus” has 32,000 stores across 80 countries. American and Chinese sales have rebounded strongly since the first wave of lockdowns, with lower footfalls partially offset by higher-priced drinks and an “industry-leading” digital-ordering platform. The group is likely to emerge from the pandemic even more dominant as lockdowns decimate the competition. The shares are not cheap on 31.9 times 2021 earnings, but this is “a business full of beans”. \$95

WHSmith

The Sunday Telegraph
WHSmith's shift from the floundering high street to outlets in transport hubs looked “inspired” until the pandemic struck. Its resilience in the face of the challenge has been “exemplary”: cost cutting means it needs only half of its normal footfall to break even. That is a testament to a strong corporate culture, helped by a succession of CEOs who have been recruited internally and

know the business inside out. The firm is poised to profit from the rebound and the shares offer value. 1,353p



Wizz Air

The Wall Street Journal
This London-listed Hungarian airline offers the best of both worlds: a pandemic recovery bet combined with a growth play. Around 65% of Wizz's passengers are travelling to visit family and friends elsewhere in Europe, making the business “unusually resistant” to the frail tourism market. Indeed, Wizz briefly became the continent's biggest airline during the spring lockdown. On a longer view, structural growth in its “core eastern European market” will provide a tailwind. The travails of Norwegian also create an opportunity to break into the long-haul market. 4,280p

...and the rest

The Daily Telegraph

Housebuilder Vistry trades on a 24% discount to net asset value (NAV) but the government will prop up the housing market “come what may”. Buy (711p). The Baillie Gifford China Growth Trust has an excellent track record but given an “eye-watering” 19% premium to NAV it is time to take profits. Sell (532p).

Investors Chronicle

“Digitally-focused” academic publisher-to-business analytics business Relx boasts a vast

“archive of content and data” that helps fend off competition. A 2.6% dividend yield is also appealing. Buy (1,837p).

The Mail on Sunday

Post-pandemic construction and garden upgrades are auspicious for outdoor paving specialist Marshalls. A “robust, long-term investment” (795p).

Shares

The pandemic is accelerating the “mega-trend” towards online retailing. Leading digital payments service



in Mr Kipling cakes-owner Premier Foods have doubled since April but on a forward p/e of 9.4 they still look a tasty morsel. Hold (98p).

The Times

Shares in private-equity investor 3i Group have done well recently but on a forward p/e of just 6.3 this diverse portfolio still has room to deliver. Buy (1,111p). Building supplier Grafton Group is cashing in on the lockdown DIY boom but is still on a discount to historic levels. Buy (816p).

A German view

People are increasingly enjoying the convenience of ordering takeaway meals. The pandemic has further fuelled this trend as people have become concerned about contracting Covid-19 at restaurants, says *Wirtschaftswoche*. At the same time, packaging laws are getting tougher: the EU, for instance, will ban single-use plastics from 2021. All this is excellent news for Finland's Huhtamäki, a specialist in compostable or recyclable food packaging. Products include the small cardboard containers for portions of chips at burger giant McDonald's and coffee cups for Starbucks. The long-term growth of the global economy is another tailwind for the sector. The stock yields almost 2%.

IPO watch

DoorDash became the “go-to [food] delivery choice for millions of people” in the US forced to stay indoors during the pandemic, says Eric Eldon on TechCrunch. It is one of several start-ups expected to float on the stockmarket before the year ends. Its latest funding round was in June, when it raised \$400m and was valued at \$16bn. Sales jumped from \$291m in 2018 to \$885m in 2019, and from \$587m in the first nine months of 2019 to \$1.92bn for the same period of 2020. It has started to turn a profit on an adjusted-Ebitda (earnings before interest, tax, depreciation and amortisation) basis, notes Alex Wilhelm, also on TechCrunch. This “makes one wonder why Uber is struggling to accomplish the same task with [its] Uber Eats”.

City talk



● National Grid's high dividend looks attractive, especially to investors who are "hungry for income", says Russ Mould in *The Daily Telegraph*. However, it faces a potentially "stiff new regulatory regime" under a proposed Ofgem framework that will run from 2021 to 2025. This could halve the regulated returns that the power-transmission giant is permitted to make.

Even worse, the government is now reportedly looking at a break-up as part of its plan to achieve net-zero carbon emissions by 2050. While "neither threat is certain to crystallise", there is too much risk here for investors to take on given the "dangers... to profits, cash flow and ultimately the dividend payments that form the bedrock of the investment case". Investors should "pull the plug" on National Grid.

● Amid the controversy over the cancelled flotation of Ant Group (see page 7), owned by the founder of Alibaba, it's important to recognise that Alibaba isn't the only major Chinese e-commerce firm, says Sharon Lam for *Breakingviews*. While JD.com has long been in the shadow of its \$700bn rival, JD.com's latest earning figures suggest that its decision to spend heavily on creating "an Amazon-like structure", may have been a good move, with sales increasing by 29% year-on-year in the third quarter.

It also stands to benefit from rules that stop e-commerce giants forbidding other firms to sell on rival platforms, something that has been a subject of frequent complaints by those who use its larger rival Alibaba. Overall, investors appear more bullish on JD.com as it "trades at about 39 times forward earnings, compared with Alibaba's 22 times."

A "stunning" second vaccine

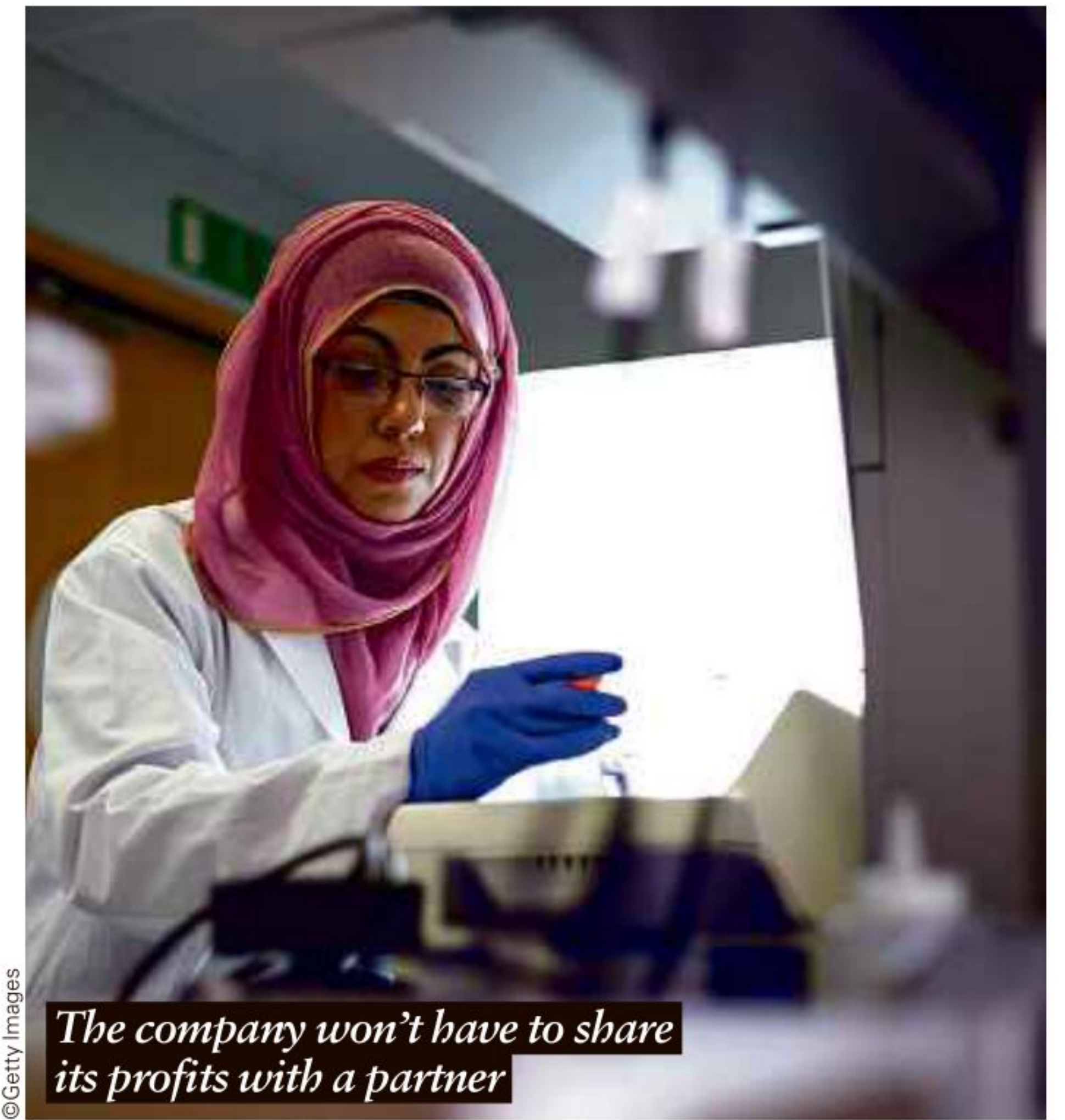
America's Moderna has come up with a vaccine even more promising than last week's offering from Pfizer and BioNTech. Matthew Partridge reports

Biotechnology firm Moderna is celebrating after "tremendously exciting" preliminary results from late-stage trials of its Covid-19 vaccine, says Sarah Knapton in *The Daily Telegraph*. So far, only five people in the trial who received the jab have contracted the virus, compared with 90 who received a placebo, implying that it is nearly 95%-effective in preventing infection. That would make it "even more effective than either the Pfizer/BioNTech or Russian jab". The trials suggest that it can even protect "the elderly and vulnerable who are most at risk", with no one who has received the jab developing severe Covid-19 yet (compared with 11 from the placebo group).

Moderna's success is "stunning", says Robert Cyran on *Breakingviews*. Not only is it highly effective, but side effects are also "moderate". More importantly, it can be stored in a conventional freezer for six months, and in a fridge up to 30 days, making it much easier to distribute than Pfizer's vaccine, which must be "kept far colder, complicating distribution". This is particularly good news for emerging markets, who not only lack expensive storage facilities, but will also benefit from the fact that richer countries have ordered far more doses than they need. The US alone ordered 600 million doses.

Vindication after a volatile year

This is "great news", says Lex in the *Financial Times*. The data also brings "vindication for one of the sector's most divisive companies". After a "record-setting" initial public offering in December 2018, its shares spent much of 2019 trading below its opening price. However, the coronavirus pandemic has put its work on messenger-RNA, which prompts the body to make its own medicine, "back into focus". Indeed, there are hopes that the Covid-19 jab may represent "proof of concept" for other Moderna treatments, including a personalised cancer vaccine. So, it's no surprise that its shares



The company won't have to share its profits with a partner

have risen by 390% this year. Thanks to its latest success, Moderna should easily find enough money to develop its other vaccines, says Charley Grant in *The Wall Street Journal*. Its \$40bn valuation means it can raise funds by selling shares and it also has \$4bn in cash on the books. Selling even 500 million doses of vaccine at \$200 each would translate into \$10bn, which should come with "attractive profit margins" as Moderna's decision not to seek a partner means that "it won't have to share those profits".

AstraZeneca should also be happy, says Nils Pratley in the *Guardian*. Moderna's trial suggests that its own jab, developed in conjunction with Oxford University, will report similarly good news next month. What's more, it stands to benefit from the fact that it "made a very good bet" when it invested in Moderna as long ago as 2013, back when it was a "three-year-old biotechnology tiddler". As a result, its 7.6% stake, which cost just \$380m, is now worth \$2.9bn – a "very decent" return.

Will JD Sports rescue Debenhams?

JD Sports has emerged as a "serious contender" to rescue Debenhams, reports Oliver Gill in the *Daily Telegraph*. The move would "significantly escalate" its "long-running" rivalry with Mike Ashley, who controls Sports Direct and the department store House of Fraser. Ashley, whose previous £125m bid for Debenhams was rejected, has so far failed to find partners who can help him improve his offer. The interest from JD Sports will raise "fresh hopes" among Debenhams' 12,000 staff, who have suffered "years of uncertainty".

Not so fast, says Jim Armitage in the *Evening Standard*. While it is "anyone's guess" who ends up with



Debenhams, it is certain that "nobody will want all 124 stores". It may be that nobody "will want any Debenhams-branded stores at all", since it is hard to see how a "second-rate department store chain" will survive post-Covid-19 "when even your granny shops online". One suspects that JD Sports's interest is "being talked up to

squeeze more cash out of Ashley". Still, even if it doesn't end up buying Debenhams, it will at least be able to hold onto Footasylum, says Ashley Armstrong in *The Times*. In a "rare" defeat for the Competition and Markets Authority (CMA), the Competition Appeals Tribunal agreed with JD Sports that its £90m takeover of the rival footwear retailer didn't represent a "substantial lessening of competition" as it "faced increasing competition" from Nike and Adidas' websites. As a result, the deal will have to be referred back to the CMA and the planned divestment of Footasylum's stores can be postponed for now.

A multibillion-pound tax raid

Rishi Sunak is seeking to fill a £300bn-sized hole in the public books. Investors beware, says Emily Hohler

Britain's wealthiest citizens could be in for a "multibillion-pound tax raid" after the Office of Tax Simplification (OTS) recommended a "major overhaul" of capital gains tax (CGT), says Camilla Canocchi in the Daily Mail. The review by the Treasury body, which estimates that the changes could raise the CGT haul from £9.6bn to £14bn, assuming taxpayers don't alter their behaviour, was commissioned by the chancellor, Rishi Sunak, in July as the government considers options to repair the economic damage coming in the wake of Covid-19 (the bill currently stands at £300bn). The recommendations, detailed in a 135-page report, can be "broadly summarised" as aligning CGT rates with income tax and cutting the annual amount that is currently exempt from CGT, says Ian King on Sky News.

Less than a year ago, Boris Johnson was elected on a promise not to raise "any of the 'big three' taxes – income tax, national insurance or VAT". The appeal of targeting CGT is that only 276,000 households paid the tax in 2018-2019 and therefore any change would affect "fewer than one in 100 taxpayers – albeit many of them older, wealthier and conservative-voting". CGT applies to assets that can increase in value, including property, businesses, art and shares. Above an annual exemption of £12,300, CGT is charged on gains at 10% for basic-rate taxpayers and 20% for higher- and additional-rate taxpayers, says Emma Agyemang in the Financial Times. This rises to 18% and 28% respectively if the gains relate to residential property. Income tax is charged at a basic rate of 20%, rising to 40% and 45% for higher- and additional-rate taxpayers.

The considerable difference between income tax and CGT creates an incentive to classify income as profit and to realise annual capital gains of just below £12,300 (the OTS found a "bunching of claims" at this level, notes Carol Lewis in The Sunday Times). The OTS has proposed cutting the CGT allowance to £2,000-£4,000, as well as reducing the number of CGT rates from four to two.

One benefit, if these changes became law, is that it will correct an "anomaly" that has benefited private-equity groups, creating a "generation of buyout billionaires", says the Financial Times. Central to how private equity is taxed is the treatment of "carried interest" (defined in the box on page 20). This is currently taxed as capital gains, although it does not reflect a genuine level of personal risk taken on behalf of buyout executives. More broadly, the changes could have a particularly negative impact for investors, business owners, landlords and heirs (see below).



Sunak: plotting a major overhaul of capital gains tax

They could also complicate rather than simplify the tax system, say Robin Vos and Edward Reed on the Macfarlanes website. To mitigate some of the consequences, the OTS accepts that other changes will have to be introduced; for example, allowing basic-rate taxpayers to average gains over the holding period of an asset to ensure they don't have to pay tax at higher rates for realising a large gain in one year.

Another issue recognised by the OTS is that increasing CGT rates will encourage people to hold on to assets, interfering with the efficient allocation of capital as well as reducing CGT revenue. CGT is "ripe for reform" and tax rises are inevitable, but we should tread carefully, says James Coney in The Times. "It's easy to say tax the rich. It is much harder to do it without destroying the incentive to create businesses and invest in the future."

The impact on business owners

The question posed by the OTS is whether someone who accumulates trading profits in a company and then sells the company, paying CGT on the sale, should be better off than someone who receives profits regularly by way of salary or dividends, say Vos and Reed. Since the OTS acknowledges that there may be many good reasons to accumulate trading profits; that "knowing where to draw the line is very difficult" (it was focusing on personal service companies); and that there is "significant risk" of creating further distortions, we believe that "singling out owners of small companies in this way" will prove hard to justify. Shalini Khemka, CEO of entrepreneurs' group E2E and a government adviser, told The Times' James Hurley that the timing was "all wrong" as business owners already faced the "enormous challenges" posed by Covid-19 and Brexit, adding "people will try to offshore or sell up to get ahead of such a change".

Investors will pay more

Reducing the annual CGT exemption to £2,000-£5,000 would reportedly increase revenues by £500m-£900m, dragging up to 400,000 more individuals into the CGT net. In cash terms, it is "insignificant for the very wealthy" and likely to affect the modestly wealthy, making it an "attractive" proposition politically, say Vos and Reed.

Landlords brace for another squeeze

Aneisha Beveridge of Hamptons calculates that if the CGT allowance were reduced to £5,000 and the CGT rate bumped up, the tax bill for a higher-rate-paying landlord selling for a gain of £69,000 would rise 61% from £15,880 to £25,600. David Alexander, CEO of Apropos property platform, says the changes would "stifle growth, discourage investment and depress the housing market" as landlords raced to sell ahead of any change.

Will heirs lose out too?

At present, the CGT base cost of an asset is raised to market value at death, without any CGT liability arising. This means the beneficiary can then sell it, without paying CGT, regardless of whether inheritance tax is payable. This encourages people to delay transfers until death. The OTS's primary recommendation is to scrap the "capital gains uplift" rule if the asset is not subject to inheritance tax (eg, owing to agricultural or business property relief), but it goes on to suggest that the change should be extended to all assets. If it becomes law, it means that capital gains could accrue across generations, making assets "unsaleable due to the astronomical tax liability", Tim Stovold of Moore Kingston Smith tells the FT. It would also produce the "surprising result" of allowing people to transfer lifetime gifts of any asset without any immediate tax charge, add Vos and Reed. The change is unlikely as it is politically sensitive, doesn't simplify the tax system and is "close to" revenue neutral.



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Johnson goes green

The PM has laid out a ten-point plan to a greener world. Matthew Partridge reports

In an attempt to seize back the political initiative after the departure of key aides Dominic Cummings and Lee Cain, Boris Johnson this week announced plans for a “self-styled green industrial revolution”, says Peter Walker and Jessica Elgot in *The Guardian*. The ten-point plan aims to create “hundreds of thousands” of jobs, while “making strides” towards reducing net carbon emission to zero, using a combination of sticks and carrots. Sticks include a ban on the sale of petrol-based cars by 2030 (hybrid engines will be phased out by 2035). The package also includes a promised £12bn worth of investment in a variety of “green infrastructure”, including cycle lanes, charging points, and wind, hydrogen and nuclear power.

A signal of intent

Many of these ideas and much of the money have previously been announced, says the *Financial Times*. The “most striking” new measure, however, is “up to £500m” for developing hydrogen power (see also page 32), with the government setting a target of 5GW of low-carbon hydrogen production capacity by 2030. This comes as industrial groups have been testing whether the gas could be used to “slash emissions from some of the economy’s dirtiest sectors”. Overall, the package is intended as “signal of intent” as Britain prepares to host next year’s UN climate-change summit.

Johnson’s decision to put environmental issues at the core of his government’s “reset” is a “pointed choice”, says Isobel Hardman in *The Spectator*. His partner Carrie Symonds and his new press secretary Allegra Stratton, have “repeatedly emphasised a



Boris Johnson: the great reset begins

need to return to talking about these issues”; his former communications chief Lee Cain had opposed this because he feared that it “would seem irrelevant to people in the middle of a pandemic”. With Cain and Cummings now gone, the PM evidently thinks that “it’s time to bring back the greenery as quickly as possible”.

The Nice Party

It’s tempting to think that the reset means that the “obsession” with throwing “red meat to blue-wall voters” will be replaced by a focus on the “nice bits of Conservatism” such as “saving the polar bears”, says Esther Webber in *The Times*. The “reality is likely to be bit more nuanced”, but still, “large-scale infrastructure projects” that would create jobs are obviously of interest to voters in “de-industrialised Leave-dominated areas”, and a fondness for big infrastructure commitments is “one of the few meaningful lines of continuity” that can be drawn between City Hall-era Johnson and the present one.

The sharp change in both tone and personnel may be simple pragmatism, or it may be part of a strategy to avoid being dominated by one faction, says Charles Moore in *The Daily Telegraph*. Whatever the reason, it reinforces the idea of the PM as a man of “whims and fancies” who is “keen on power and capricious with it”. There is a risk now that the Vote Leave contingent who supported Johnson’s leadership campaign, and his subsequent election victory, will now turn on him. If Covid-19 isn’t deemed to have been brought under control or Brexit brings chaos, “Boris the emperor will be naked, and will have perilously few people left to declare he is wearing a fine set of clothes”.

Betting on politics



The amount of money wagered on the US presidential election still continues to climb, with £730m matched on the main market alone. The odds for Joe Biden (pictured) have now shrunk to 1.05 (95.2%), but they still seem much longer than is justified given the minuscule chances of the result being overturned. This raises an interesting question about the best approach to betting at short odds.

The proper definition of a short-odds situation is when the potential return from a winning bet is worse than even money (50%). This means that you will get back a total of less than double your stake from a win. In contrast, long odds are those where the punter is offered better than even money, presumably because the event is seen as unlikely.

The key to successful gambling is to look for



situations where the odds are relatively longer than the true probability of the event. So short-odds bets can offer tremendous value if the event is more likely than the odds would imply; long bets can be a waste of money if the event is even less likely than the odds on offer.

I’ve tipped many short-odds bets that I consider to offer value. Indeed, several studies, including one by Russell Sobel and S. Travis Raines in 2003, suggest that short-odds bets tend to offer a relatively better return for the punter. However, I avoid bets that are shorter than 1/10 (90.9%) even if the event is nearly certain (like Biden’s victory), because the low potential return isn’t worth the stress and worry.

President clings on and frustrates Biden



Trump: blowing up the bridges

Nearly a fortnight after Joe Biden was declared the winner of the US presidential election, Donald Trump still refuses to fully admit defeat, says *The Daily Telegraph*. He continues to allege voter fraud and pursue legal challenges, raising fears that he will impede the formation of a new Biden government. Indeed, Trump has

refused to allow the usual transition process to go ahead, whereby outgoing officials work with the president-elect’s team to hand over the reins of power.

The White House argues that it is only following the precedent of 2000, in which a disputed election delayed the start of a transition until December, says *The Economist*. That election, however, hinged on just 537 votes in a single state; Trump’s claims involve five states where Biden’s margins range from 11,000 votes to nearly 150,000. Still, with the exception of a few senators, most of Trump’s party “see more political risk in accepting Biden’s victory than in humouring Trump”. Trump will likely still leave office on

20 January, but “the distrust he has sowed will not”.

Trump’s actions have wider implications, says Roger Boyes in *The Times*. To make things hard for the incoming Biden administration Trump is pursuing a “scorched-earth policy” of firing officials who are opposed to his policy of withdrawing troops from Iraq, Afghanistan and Somalia. This risks handing Biden a “foreign-policy crisis in his first weeks in office”, with the prospect of a “Vietnam-style humiliation” in Afghanistan. Washington, “already exhausted by a bruising election campaign”, risks looking “enfeebled and distracted”, inviting America’s foes to “jostle for advantage”.

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Washington DC

Shoppers are wary: “Consumer spending is slowing at the worst possible time,” says Justin Lahart in *The Wall Street Journal*. Retail sales grew by just 0.3% in October from a month earlier, much less than September’s 1.6% gain. Millions remain out of work and much of the money from the stimulus rounds in the spring has run out. “Still, economists thought that the momentum in sales would carry through a bit longer.” What makes October’s slowdown “especially worrisome is that it largely happened before the surge in Covid-19 cases now engulfing the nation”. Grocers are also reporting “renewed demand for... frozen foods”, which points to growing wariness “just as the holiday shopping season begins”. Some seasonal promotions, such as Amazon Prime Day, have already been pulled forward and so can’t help November and December’s numbers, while the chances of more stimulus before the end of the year “look slim”. “Consumption growth will [probably] slow to about 7.5% annualised in the fourth quarter,” says Andrew Hunter of Capital Economics. “The new wave of virus infections is starting to weigh on the economy and, with more... states now imposing restrictions, there is a clear risk of a sharper slowdown.”

London

Inflation ticks up: The number of deaths in England and Wales where Covid-19 was mentioned on the death certificate rose to 1,937 in the first week of November, a 40% jump from the previous seven days. The figure is now at a six-month high. In Scotland the government has imposed its toughest (level four) restrictions on 11 council areas, including Glasgow, in an effort to contain the spread. Non-essential shops, pubs, restaurants and gyms have been forced to close, while schools remain open. The measures will last until 11 December. Meanwhile, the annual rate of consumer price inflation (CPI) rose to 0.7% in October from 0.5% in September, and “core” prices, which exclude energy and food, rose to 1.5% from 1.3%. The uptick is likely to prove temporary, according to Samuel Tombs of Pantheon Macroeconomics. Expect inflation “to hover close to 0.7% until April”, followed by a possible spending-driven spike in the summer. “Accordingly, we continue to think that CPI... will not rise to the 2% target within the next two years.”

Lima

Three presidents in seven days: Peru’s third president in a week has been chosen following days of turmoil, says Michael Stott in the *Financial Times*. Former World Bank official Francisco Sagasti (pictured) will replace Manuel Merino, who was in power for “five chaotic days” of mass protesting that culminated in his resignation on Sunday. Merino was voted into power by congress as a replacement for popular president Martín Vizcarra, who angered lawmakers with an anti-corruption campaign. Congress impeached him, but polls say most Peruvians think politicians acted to save themselves from investigation. On top of a political crisis, Peru, the world’s second largest copper producer, has been severely affected by the pandemic. Despite a long and strict lockdown that “devastated” the economy, Peru has recorded the second-highest per capita death toll globally. Its economy contracted 30% in the second quarter and is forecast to shrink 13.9% this year.

Lusaka

Africa’s first Covid-19 default: Zambia became the first African country to default on its debt during the pandemic. This puts to the test a new framework designed to resolve debt crises in developing countries that is meant to ensure all creditors “share the burden” of providing relief, say Gabriele Steinhäuser and Joe Wallace in *The Wall Street Journal*. The world’s poorest countries owe billions of dollars to Chinese state-owned lenders and Western fund managers that previously “snapped up” its bonds. Under the common framework, created by finance ministers from 20 major economies, Chinese lenders will work alongside “rich, mostly Western nations” to restructure debt. It’s a “big change from previous

crises” when the World Bank and the International Monetary Fund were the primary creditors. Zambia missed a \$42.5m interest payment on some of its \$3bn of dollar-denominated bonds just hours after the new debt framework was announced. The Zambian government is entirely to blame for its predicament, says *The Economist*. Five years ago, public debt was a mere 32% of GDP. After five years of “profligacy and theft by the ruling elite” under President Edgar Lungu, it has “ballooned” to 120%. He is now trying to rig the next presidential election, due in August 2021.



The way we live now: how the other half self-isolates



The rich are in a race for space in lockdown

The super-rich are escaping coronavirus lockdowns by buying multimillion-pound, Downton Abbey-like estates “complete with butlers, cooks, housekeepers, and armies of gardeners”, says Rupert Neate in *The Guardian*. Before the pandemic struck, “the richest of the rich... opted to live in luxurious skyscraper penthouses, on tropical islands or superyachts”. Huge country estates and former castles proved hard to shift then, but now estate agents are reporting a surge in sales. Savills has 320 staff in a “special unit” dedicated to

such properties and it has sold 21 estates valued at over £15m since the first nationwide lockdown in March. In 2019 only one such property was sold. Rival firms are reporting the same thing: a “record-breaking run of activity driven by a race for space post-lockdown”. Aside from a country house, popular estates also feature cottages, “a dollop of land”, and security. Those looking to pay over £15m can expect a pool, stables, tennis courts, “and outbuilding for cars or whatever the passion of the owner is”.

Brussels

Roadblock to recovery: Poland and Hungary have threatened to scupper a €1.8trn seven-year budget and Covid-19 recovery package for the EU, which needs unanimous approval from the 27 members. While both countries “stand to benefit... [they] could not stomach the ‘rule of law’ conditions tied to the help”, says Tom Rees in *The Daily Telegraph*. The conditions include independence of judges and a free press. “How much is sovereignty worth?... For us, it’s priceless,” Michal Wojcik, a minister in Poland’s governing populist Law and Justice party, said this week. “This is a game of chicken,” explains Carsten Brzeski of Dutch bank ING. “Hungary and Poland are now not only blocking the recovery fund, but also the entire multi-annual framework.” The plan had been for the European Commission to borrow substantially for the first time to fund €750bn of grants and loans, with the package likened to a “Hamiltonian moment” (when the US federal government assumed the debts of the states in the 1790s). Now Spain and Italy, the two countries hardest-hit by the pandemic and the biggest recipients of the funds, could face a delay in receiving a share of the first payouts, worth €390bn, scheduled for 2021.



Polish minister Michal Wojcik: playing chicken with the EU

©Alamy

Tokyo

A tepid rebound: Japan’s economy surged by 5% in the third quarter of the year compared with the previous three months as coronavirus restrictions eased and consumption climbed, say Ben Dooley and Hisako Ueno in *The New York Times*. But analysts are already warning that the recovery is “unlikely to be long-lived” as an increase in new cases worldwide “threatens to dampen sentiment”. GDP had contracted 8.2% in the previous three months. That collapse was the most severe since 1955. The world’s third-largest economy was struggling before the pandemic hit owing to decreasing demand from China, a consumer tax increase and a typhoon in October 2019. “That underlying weakness” turned it into the first major economy to succumb to recession. It has also made recovery more difficult, with the rebound paling in comparison with other economies. The third-quarter’s annualised growth rate of 21.4%, for instance, pales in comparison with America’s 33%. But Japan’s success in controlling the virus – it has recorded just 1,800 deaths since the pandemic began – has turned investors bullish. Economic sentiment in the service sector is at its highest point in six years and the Nikkei hit a 29-year high last week.

Addis Ababa

Civil war escalates: The internal conflict in Ethiopia escalated this week when the government froze the bank accounts of dozens of companies linked to a firm run by the ruling party of the dissident Tigray region, say Samuel Gebre and Simon Marks on Bloomberg. The Endowment Fund for the Rehabilitation of Tigray is administered by the Tigray People’s Liberation Front (TPLF, with whom the government has been clashing for the past few weeks) and controls some of Ethiopia’s biggest businesses. The government accused the companies affected of financing violence and acts of terrorism in connection with the TPLF. Prime Minister Abiy Ahmed (pictured) first ordered



an attack on the TPLF on 3 November, accusing it of attacking a federal military base. The clash between government fighters and TPLF forces left hundreds of people dead. The violence has spooked the investors who have been “pouring money” into the fast-growing economy since Abiy took power in 2018. The conflict threatens to spill over Ethiopia’s borders to Eritrea, barely two years after the two countries made peace following a “bitter border war” dominated by the TPLF that cost around 100,000 lives, says *The Economist*. Eritrea denies any involvement, but few doubt its president “would like to see the Tigrayans routed”.

Hanoi

Asia-Pacific’s historic trade deal: On Sunday, the leaders of 15 Asia-Pacific nations signed “one of the biggest trade deals in history, connecting around 30% of the world’s population and economic output and potentially adding \$200bn to the global economy by 2030, says the Financial Times. The Regional Comprehensive Economic Partnership (RCEP) is the culmination of nearly a decade of talks and brings Asia a “step closer to becoming a coherent trading zone like the EU”. The RCEP takes most existing agreements signed by the ten members of the Association of Southeast Asian Nations (ASEAN) and combines them into a pact with Australia, China, Japan, New Zealand and South Korea (India and the US dropped out). The two main advantages to the deal are scale and the fact that exporters will need just one certificate of origin to trade with other members, “making intra-Asian supply chains more manageable”, says *The Wall Street Journal*. However, it is not expected to lead to large tariff reductions, contains no environmental or labour rules, and “its sections on disputes settlement, competition, services and investment are relatively weak”.

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A ceasefire in the war on drugs

With US states decriminalising the use even of hard drugs, and legalising the recreational use of cannabis, this could be the beginning of the end for drug prohibition. Is that a good thing? Simon Wilson reports

What has happened?

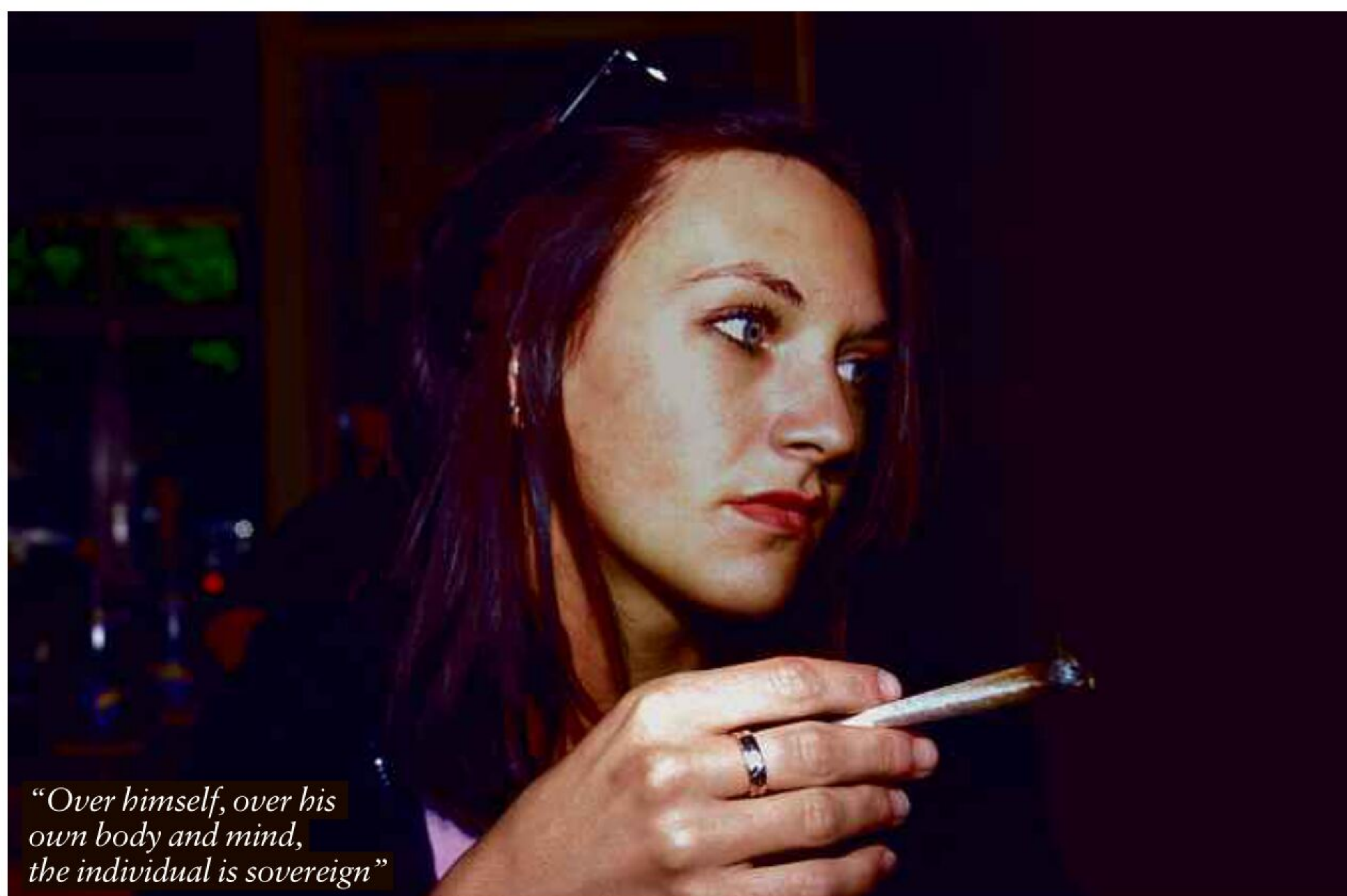
Oregon has become the first US state to decriminalise the possession in small quantities of all illegal drugs, including heroin, cocaine and methamphetamine – a landmark counterblast against America's failed "war on drugs". Possessing and supplying large quantities remains a criminal offence. But people found with small quantities will face similar penalties to those caught speeding – a \$100 fine and attendance at a free addiction programme (funded out of tax revenues from cannabis, the use of which was legalised in 2014). Oregon voters backed decriminalisation in a referendum held on 3 November (alongside the presidential vote), and also approved legalising psilocybin, the main psychoactive compound in magic mushrooms. Again, it's the first US state to do so. The same day, Washington, DC, voters approved the decriminalisation of magic mushrooms and other organic psychedelic drugs. And four more states (Montana, New Jersey, South Dakota and Arizona) joined the existing 11 in legalising recreational cannabis.

Why is this a big deal?

Because it moves Oregon's approach into line with pioneers such as Portugal, which began treating drug use as a medical issue, not a criminal one, in 2001. As such, it's a big crack in America's so-called "war on drugs" that began in the early 1970s under Richard Nixon – an approach based on fiercely policed prohibition and backed up by US military might and global reach. Alas, that approach has proved an "unmitigated disaster", says Rachel Cunliffe in City AM. It has resulted in mass incarceration that has fuelled racial divisions: black Americans are six times more likely to be jailed for drug offences than whites, though usage rates are the same. It has corroded US foreign policy and fuelled instability and violence in producer countries in Latin America and Asia. And it hasn't curtailed drug use, merely made life harder for addicts. If we are ever to unpick the havoc and misery of the drug prohibition era, says Cunliffe, America will have to lead the way.

What are the arguments in favour?

First, there's individual choice and liberty. All known human civilisations have cultivated plants with narcotic (or hallucinogenic) properties, and used them to dull pain, relax or provide enjoyable stimulation. The nation state, a relatively recent invention, has no business telling us what we can and can't use to get high. Indeed, to govern our choices on pain of incarceration, even where our choices harm only ourselves, is an outrage. Second, there's pragmatism: prohibition does more harm



than good and hurts more people than it protects. That's true in consumer countries (like Britain), but it's especially true in the producer countries where violence and corruption are typically endemic. In short, banning drugs doesn't limit use or slow production. Rather, it pushes up prices, provides a breeding ground for violence, multiplies the health risks of low-quality supply, makes addiction more likely, and criminalises vast swathes of the population. In some producer countries, it also has the effect of eroding the state itself – perpetuating the rule of kleptocratic elites in which the government and the drug lords are two sides of the same coin.

What about money?

Third, there's the fiscal argument. Illicit drugs constitute a vastly lucrative and profitable sector; authoritative estimates put annual global sales at \$150bn to \$400bn.

Legalising, regulating and taxing those sales would cut the associated costs of policing and imprisonment (likely to be tens of billions in the UK context), while also providing a lucrative tax revenue stream for governments (several billions). It would also make it easier to control the quality and help people consume drugs safely.

And the arguments against?

The counter-argument, in favour of prohibition, is that it's wrong to facilitate the consumption of anything (whether alcohol, tobacco or other drugs) that is dangerous. Legalisation would result in more consumption and consumers. Even supposedly "soft" drugs, such as cannabis – which is sold in far stronger forms today than ever before – are risky and harmful. There's a wealth of evidence, for

example, showing a link between teenage use of strong cannabis and an increased risk of severe mental illness. Legalising drugs would suggest that they are "safe", say prohibitionists, when they are not. And legalising soft drugs would act as a "gateway" to use of harder drugs, they say.

What's the situation in the UK?

The tide may be beginning to turn on the era of prohibition – a surprisingly recent phenomenon. Heroin, which was originally the trademarked brand name for the drug diacetylmorphine (and marketed, erroneously, as a non-addictive alternative to morphine) was only made illegal in the UK in 1920, and was freely available on prescription to addicts until 1967. Cocaine, which was an ingredient in Coca-Cola until 1902, was also outlawed in 1920 (again, except for licensed medical use). And cannabis was banned for recreational use in 1928, though it was still lawful for medical use until 1971.

And now?

In 2018, in response to two high-profile cases in which young epilepsy patients were denied lawful access to cannabis products that eased their condition, the government changed the law, making medicinal cannabis available on prescription (though only from hospital doctors, not GPs, and only for a set number of conditions where other treatments have proved ineffective). To date, neither main political party has adopted wider legalisation – even of cannabis – as a policy proposal. But there are many influential voices in favour, across the political spectrum. "John Stuart Mill was right," says The Economist. "Over himself, over his own body and mind, the individual is sovereign. Trade in drugs may be immoral or irresponsible, but it should no longer be illegal."

All roads East



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	Aug 15 – Aug 16	Aug 16 – Aug 17	Aug 17 – Aug 18	Aug 18 – Aug 19	Aug 19 – Aug 20
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Share Price	49.4%	23.4%	7.5%	7.7%	-19.4%
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Source: Morningstar as at 31.08.2020, bid-bid, net income reinvested.

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Free trade without the red tape

It is possible to create large single markets without making the EU's mistakes



Matthew Lynn
City columnist

This week saw the signing of the Regional Comprehensive Economic Partnership (RCEP), an unwieldy name for a vast new trading bloc that will cover 15 countries, including China, South Korea, Australia, Malaysia and Vietnam. Between them those countries account for a third of the world's population, and 30% of global GDP. It will be the biggest single trade bloc in the world. How deep that integration turns out to be, and how much it will be dominated by China, and how much it boosts trade, remains to be seen. But there can be no question that it is a huge step towards dismantling trade barriers.

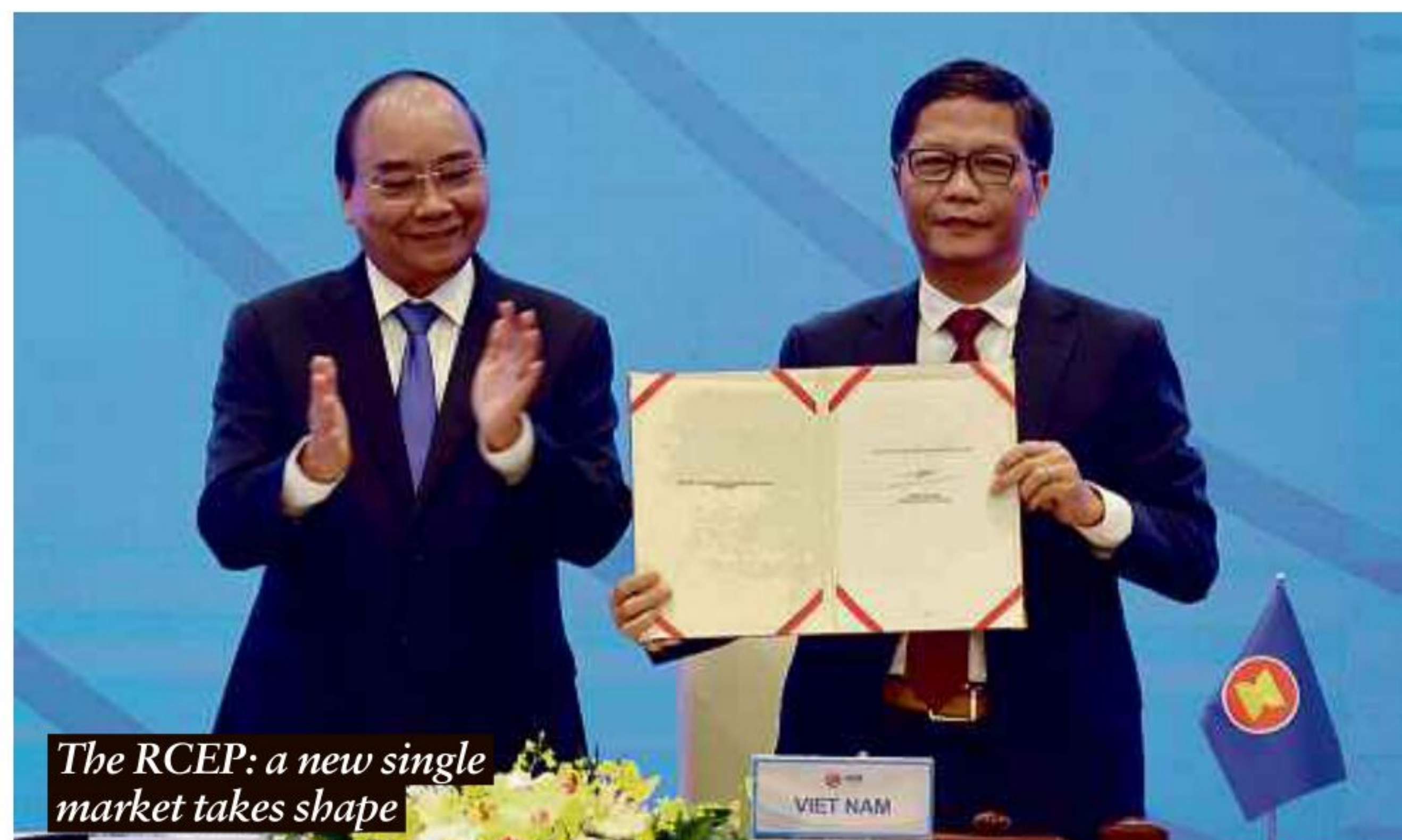
A blossoming of blocs

It is not alone. Over the course of the coming year the African Continental Free Trade Area will come into effect – Nigeria, Africa's biggest economy, has just ratified it – taking down tariffs and liberalising trade in one of the fastest-growing regions of the world. It will cover 1.2 billion people and \$3trn in combined GDP, and should substantially boost trade across the continent. South America already has the Mercosur free-trade zone and that is gradually being deepened and strengthened, and North America has a revamped Nafta. The net result is that there are now four major trading blocs in the world, of which the EU's single market is just one. That matters for three reasons.

First, in many ways the latest trade areas are far better designed than the EU's. None of them have all the baggage of a superstate that the EU insists is essential to make a free-trade area work. There isn't a commission based in Malacca or Lagos

drawing up tens of thousands of directives, there aren't any flags or anthems, and the Australians and the Vietnamese and the Kenyans and the Ghanians don't have to elect anyone to a supranational parliament. They are far simpler to run and they don't provoke the kind of nationalistic backlash that the EU does, nor does it create a clique of over-powerful regulators who are accountable to no one. Tariffs get taken down and common rules are established, and that is just about it. If it works for Asia and Africa it will show that much of the state-building the EU insists on is nonsense. You can trade freely without it.

Second, the new trade blocs are designed for the 21st century, not the 20th. The EU's single market is already 30 years old. It was designed at a time when fax machines were the quickest way to send documents and phones were things you spoke into (and usually came with wires plugged into the wall). Asia's new trade zone is far stronger on issues such as services and intellectual property, which the EU has so far struggled to liberalise effectively. So is the African deal. In truth, under World Trade Organisation rules, tariffs on goods are mostly fairly minor anyway. The new round of trade blocs will be opening up markets in the sectors of the economy that really matter – and where there is real potential for liberation to drive growth. The EU's single market has hardly even started on that.



The EU is yesterday's news

Finally, the EU is steadily becoming less and less important. For most of its history it was the biggest trade bloc in the world and the richest as well. That was a big deal and gave it a lot of muscle. Every company in the world had to think about what the EU rules were and what it needed to do to access that market. But the fourth or fifth biggest trade bloc in the world and the one with the slowest growth? It is not quite the same thing. It won't have quite the same sort of muscle. Companies will be less worried about its standards. Other countries may still want to secure access to its markets, but it will hardly be much of a priority and they won't be willing to offer much in the way of concessions to get a deal.

The EU's commissioners still act as if they are in charge of the most important market in the world. But that is not true anymore – and it is getting less and less true with every year that passes. The UK need not worry about leaving too much – there are now several far more important blocs it can trade with instead.

Who's getting what

● The Hut Group founder **Matthew Moulding** (pictured) is to receive £830m in shares, one of the biggest payouts in British corporate history, after valuation targets were hit following the online shopping company's successful £4.5bn initial public offering in September, says the Mailonline. The group's valuation has since risen from £5.4bn to nearly £6.3bn. Should it reach £7.3bn within three years, Moulding's total payout from the reward scheme



would be worth £1bn. Moulding still owns a fifth of the business.

● Conservative MP **Philip Davies** has been accused of cronyism after it emerged that two of his former aides, **Sophie Dean** and **Grainne Hurst**, now oversee safer gambling at Ladbrokes owner GVC, the betting firm that paid Davies £400 an hour this summer for advice ahead of a government review, says The Guardian. Davies earned £50,000 between July and September.

● **Debora Shoquist**, an executive vice-president at Nvidia, the US tech giant that is buying British chip designer ARM for £30bn, has sold \$29m in shares in recent weeks, says The Sunday Times. The takeover of ARM has helped push Nvidia's shares to an all-time high, valuing the company at around \$360bn. Shoquist sold her shares, which were worth around \$486 each before news of the deal emerged, for between \$537 and \$560. The government's new national security and investment bill, which is aimed at tightening the rules on foreign investment, could yet affect the takeover.

Nice work if you can get it

Former Labour minister **David Miliband's** charity has hired several of his close political aides for senior positions on hefty salaries, says Ian Birrell in The Mail on Sunday. Miliband is paid around \$1m to run the International Rescue Committee (IRC), which gets £50m from British taxpayers. Madlin Sadler, his former special adviser, pocketed more than £300,000 last year from the charity as senior vice-president. Her salary has gone up by almost £57,000 in four years. Other senior employees with ties to Miliband include **Laura Kyrke-Smith**, who leads the charity's British arm and was a speechwriter under Miliband; **Ollie Money**, now global communications director and a former researcher before joining the IRC in 2013; and **Matthew Doyle**, currently director of communications for Europe and a former special adviser to Miliband's mentor, Tony Blair.



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INVESTING FOR GENERATIONS

Time to be fearful, not greedy?

The Covid-19 crash proved a great investment opportunity. Does the vaccine mean it's time to sell?



John Stepek
Executive editor

"Buy on the sound of cannons, sell on the sound of trumpets." So runs the old investment adage, apocryphally attributed to a member of the Rothschild banking dynasty. The idea – that you should invest when everyone is panicking and assets are cheap, and sell when everyone is jubilant, and assets are expensive – makes perfect contrarian sense. Investing in March this year, when fear of coronavirus and its impact was at a peak, certainly took a lot of nerve, but the level of panic was unmistakable. Today the question is: as vaccine news sends many markets to new highs, is this the "trumpet" moment?

Not yet, perhaps – but we might be getting close. One sentiment survey that I like to watch – the monthly survey of global fund managers from Michael Hartnett's team at Bank of America (BoA) – is flashing a few warning signs that big investors might be getting ahead of themselves. The fact that this month's was the most bullish survey of the year so far isn't a surprise given the year we've had. But significantly, the levels of cash held by fund managers have fallen sharply from 4.4% to 4.1%. That's below the 4.2% recorded in January, before Covid-19 had gripped the public consciousness anywhere outside of China. More importantly, based on past readings, below 4% is a "sell" signal, notes BoA.

There are still areas that will benefit from the "reopening" trade – there has been a big shift (or "rotation", as City traders like to describe it) into the sectors which suffered most during the Covid-19 sell-off – emerging markets and small companies have seen particularly large flows of money in the past month, along with banks and



value stocks generally. What investments still look neglected? At a market level, the eurozone and Japan are still lagging, while the UK remains widely disliked (a constant in this survey since the 2016 vote for Brexit). But even Britain is less

"Is the vaccine news a 'trumpet' moment for markets?"

hated than the energy sector. In short, if you're looking for good bets today, stick with value stocks and beneficiaries of re-opening, and be long Japan, the eurozone, the UK and energy. But be ready for a bumpier ride in 2021 when good economic news could spell pain for wider markets.

That brings us to one other point from the survey that's worth pulling out: despite their belief in a relatively strong recovery, global fund managers are still remarkably complacent about inflation. While most expect prices to rise next year, only 4% anticipate that inflation will be "a lot higher". Instead, a majority are still backing the conveniently ideal scenario of "above-trend growth and below-trend inflation". A surprise resurgence of inflation next year is exactly the sort of scenario that could derail markets. So hang on to your gold (and bitcoin – see column).

Guru watch

Stanley Druckenmiller,
chief executive,
Duquesne
Family Office



The prospect of one or more vaccines for Covid-19 has sent markets soaring. But certain stocks are set to do a lot better than others, as billionaire investor Stanley Druckenmiller points out.

"You've had a bunch of equities benefiting greatly from work from home. A lot of money has rotated into them. They are overvalued," the hedge fund manager tells CNBC. "But then you've got a whole other sector of the market that has struggled mightily because of Covid-19. They're selling at under-value relative to... a three-to-



five-year outlook. So the rotation into that would seem entirely rational."

Another legacy of the coronavirus pandemic will be less welcome to many investors. Druckenmiller reckons that inflation is likely to rise in the coming years, due primarily to the actions taken by central banks, and the US Federal Reserve in particular, in their efforts to protect the global financial system and offset the worst of the shutdown-related economic damage.

Druckenmiller holds both gold and the cryptocurrency bitcoin as hedges against inflation. While he owns a lot more gold than he does bitcoin, he expects the latter to "work better", notes Billy Bambrough on Forbes. "Bitcoin could be an asset class that has a lot of attraction as a store of value to both millennials and the new West Coast money and, as you know, they got a lot of it." Druckenmiller adds that the digital currency is becoming more mainstream. "It's been around for 13 years and with each passing day it picks up more of its stabilisation as a brand."

I wish I knew what **carried interest** was, but I'm too embarrassed to ask

"Carried interest" or "carry" is a perk enjoyed mainly by private equity executives. In short, it's a performance fee. The managers typically take a 20% share of the profits of a fund (on top of management fees) with the idea that this aligns their interests more closely with the investors.

Note that the name "carried interest" has nothing to do with the interest you might get paid on your savings. The term originates with trade voyages in the 16th century, where captains of ships sailing from Europe to Asia or America would take a 20% share of the profit.

You might question why a performance fee would make an

investment manager try harder to make good investments, but that's not the most controversial thing about carried interest. The real issue is that it is taxed as a capital gain rather than income, and so incurs a lower tax rate. In the UK for example, the capital gains tax top rate is 28% – it's 45% for income tax (see page 10).

One argument for taxing capital gains less aggressively than income is to encourage entrepreneurship and investment – the idea being that those who put their own capital at risk to set up or invest in a business should get to retain more of any gains they make by doing so. This makes carried interest contentious,

because while there are a few defenders of "carry", most argue that private equity executives are in effect getting a preferential tax rate on what in any other industry would simply be viewed as a bonus for doing your job, and therefore taxed as income.

Changing the rules on carried interest would not raise much tax. A study by the University of Warwick and the London School of Economics found that taxing "carry" as income in the UK would have raised just £440m in 2017. It might also have unintended consequences in terms of driving the industry elsewhere. However, the argument for fairer tax treatment is politically potent at a time when inequality is never far from the headlines.



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Footloose workers get nailed down

Lionel Laurent
Bloomberg

Digital nomads, a new species of globe-trotting white-collar workers, are taking the opportunity presented by Covid-19 to settle in spots without coronavirus restrictions, and countries of a “sunny disposition, from tax havens to tourist traps, are competing hard” to attract them, says Lionel Laurent. However, while the idea of paying \$2,000 for a year’s remote working rights on Barbados may sound appealing, digital wanderers are likely to stumble upon “some uncomfortable truths”. First, increasing travel bans and immigration restrictions will make their wanderings harder. Second, given the scale of pandemic-driven recessions, this privileged group of workers will attract the attention of the tax authorities. Brits escaping to places like St. Tropez have already been told to “come back or face a change to their residency status”. The current mood resembles the aftermath of the 2008 financial crisis and “everything will be in the firing line”, from golden passport programmes to aggressive international tax planning. As “big government gets bigger”, free riders will no longer be tolerated. “Digital nomads certainly look fortunate right now, but societies scarred by Covid-19 will want them to lay down roots eventually.”

Why VCs should flee California

Joe Lonsdale
The Wall Street Journal

“Few top venture capitalists consider living anywhere other than California and a handful of global financial centres,” but I am moving my firm, 8VC, to Texas, says Joe Lonsdale. I love California, but it has “fallen into disrepair. Bad policies discourage business and innovation, stifle opportunity and make life in major cities ugly and unpleasant”. In San Francisco, “ill-conceived criminal-justice reforms and radical district attorneys” have made our streets dangerous. Power outages – more than 25,000 this year – are down to government “incompetence”, not wildfires. Restrictive zoning laws make it “nearly impossible” for many essential workers to live anywhere near major cities; the government is “ beholden to public-employee unions” and a “broken environmental review process means it takes a decade of paying lawyers to build anything”. Until things change, California will keep losing talent to places such as Miami and Nashville. Six of my firm’s portfolio companies are already based in Austin. “Investments follow the talent.” We’re betting that the future of America is “going to be built in the middle of the country, in places with good government and a reasonable cost of living”.

A daft idea for a new tax

Sam Dumitriu
CapX

Deutsche Bank thinks that remote workers should be hit with a 5% tax rise when the pandemic passes, says Sam Dumitriu. Why? Because remote workers contribute less to the infrastructure of the economy, built to support face-to-face working, while “still receiving its benefits”. But so what? Remote workers may buy fewer Pret sandwiches, but they will spend more in their local cafe. “If they don’t, they’re effectively producing things for others in exchange for nothing in return.” As for unused city-centre office space, it could be freed up for much-needed housing. If we bought Deutsche’s logic, we should also tax things like cycling, packed lunches and thermoses. Indeed, there’s an argument for accelerating the working from home trend. It may boost productivity (we can “tap into the benefits of agglomeration without bearing its costs, such as high rents and crowded commutes”) and will reduce regional inequality (by decoupling where people live and work) as well as carbon emissions. In 1843, the French economist Frédéric Bastiat satirised this approach in “The Candlemakers’ Petition”, asking Parliament for protection against an unfair competitor: the sun. The worrying thing is, Bastiat was joking; Deutsche Bank is not.

The spivvy councils going bust

Editorial
The Times

The pandemic has exacerbated “acute funding pressures” for many local authorities, says The Times. But the London borough of Croydon, which is “effectively bankrupt” and banned all but essential spending last week, is no victim of circumstance. As only the third council in two decades to issue a Section 114 notice, it is “self-evidently a special case” and its “culture of profligacy” cannot be explained away by austerity or high demand for social care. Last month it was “savaged” by auditors. What “ultimately did” for the borough, now £1.5bn in debt, was the £545m it borrowed to fund investments in property, including £30m on one, now bankrupt, hotel. Ministers will be tempted to blame Labour mismanagement, but “councils across the country are similarly exposed”. Nearly 50% of local authorities own commercial property. What started as a strategy to generate revenue without squeezing services, “often fuelled by Treasury loans”, has left councils overleveraged. Shopping centres, car dealerships and hotels would be “imprudent investments for most commercial businesses”, let alone authorities with obligations to provide essential services. The coming months will reveal how serious the problem is.

Money talks

“I know what Twitter is, but I wouldn’t go anywhere near it if you paid me, frankly.”

Princess Anne (pictured), quoted in The Times



©Getty Images

“I probably wouldn’t have done that had I known what was around the corner [the pandemic], but I’m not a downsizing type of person. Bigger hats, bigger houses.”

Pop star Boy George on buying the house next door to his mansion in Hampstead to increase his living space, quoted in The Times

“Ambition. Being naturally gifted is a wonderful thing. But people who aren’t naturally gifted seem to work harder.”

Musician Nile Rodgers on whether ambition or talent matters more to success, quoted in the Financial Times

“It was about the price of a spare bedroom in New York City.”

Author Lee Child on buying a property in Wyoming three years ago, quoted in The Sunday Times

“Before we got in the group, I never looked at myself and thought, ‘I don’t like that’ – I don’t think any of us did. I never thought, ‘Oh god, I’m fat’, and then we got in the industry, and we all started wanting to change things about ourselves. It’s so sad.”

Jesy Nelson of girlband Little Mix on the music industry, quoted in The Mail on Sunday

“I don’t have savings... If I want something, I just go and get it. My Tibetan terrier cost me £1,000 and I’d get another six.”

Actress Linda Regan, quoted in The Sunday Telegraph

“If you’re lucky you recognise that having this guy is a waste of time; he’s too big to sit in the plane seat...and when it’s time, he can’t even run.”

Actor Wesley Snipes on bodyguards, quoted in The Guardian

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“Net zero” is the destination

project-syndicate.org

At this year’s United Nations General Assembly, representatives of the world’s largest single market and of the world’s second-largest economy “laid their climate cards on the table”, says Laurence Tubiana. Both the EU and China have committed to achieving net-zero carbon emissions.

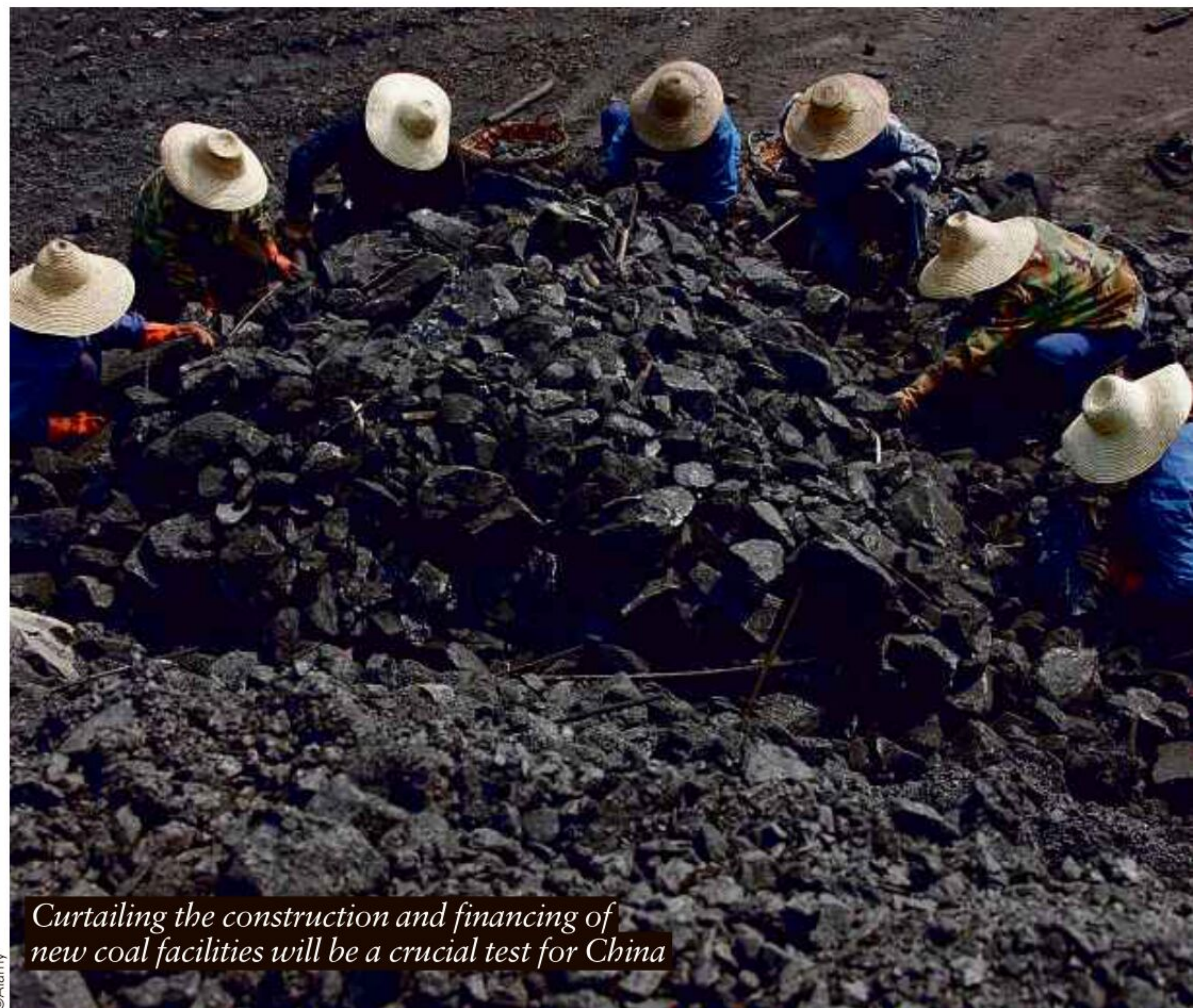
It’s time to press ahead

There will, of course, be challenges. In the EU, many “vested interests stand ready” to oppose the ambitious new goals. Nor will it be easy for China’s leadership to “reorient” its huge economy. Yet both powers recognise that “the reality of climate change makes an economic transition inevitable”, and that “whoever moves first will have a major competitive advantage for decades to come”. Chinese and European leaders

both recognise that this is the moment to “press ahead with concrete... plans of action”.

For China, the “key benchmarks” will include reaching peak carbon emissions by 2025 and setting more ambitious targets to cut emissions, particularly for domestic coal use. “Whether China can end the construction and financing of new coal facilities – both at home and abroad through the Belt and Road Initiative – will be a crucial test.”

Fortunately, coal is “no longer economically viable”. In 2019, coal-fuelled power generation fell by 24% in the EU and by 16% in the US, bringing it down to half the 2007 level. In China, nearly 60% of the country’s coal capacity is running at a loss, “giving the government every reason to extend its global lead in solar and wind power, and to use its



Curtailling the construction and financing of new coal facilities will be a crucial test for China

international reach to boost renewables beyond its borders”.

The EU too will have to demonstrate how it can meet its long-term targets – of cutting emissions by 55%-60% by 2030 on the way to climate-neutrality – and win the support of all 27 member states. “The sooner a deal is reached, the better the EU’s chance to leapfrog ahead.”

The global implications of China and the EU taking the lead will be “broad and deep”, affecting supply chains across the world and putting pressure on governments to “evaluate their plans through a green lens”. The direction of travel, towards net zero, is clear. “All leaders would do well to chart their course accordingly.”

The Great Reset conspiracy

mises.org

The Covid-19 lockdowns have accelerated the implementation of “long-held plans to establish a new world order”, says Antony Mueller. Under the auspices of the World Economic Forum, global policymakers are advocating a “Great Reset” with the intent of creating a global technocracy. The intent is utopian, with programmes including a guaranteed minimum income and healthcare for all; the reality will be a world of “digital tyranny”, modelled on China’s social credit system, whereby individuals and corporations are monitored for correct behaviour and punished with exclusion for non-compliance.

The aim of the Great Reset is, in short, social engineering. The end result will be different from the totalitarianisms of earlier times, relying more on behavioural “nudges” than brute force, but the intent will still be to “make the individual submit to the tyranny of a technocratic state”. “The experts know better” is the justification. And the pandemic provides the perfect pretext for accelerating its implementation. Once, “war was the health of the state” – now, it is fear of disease. The lockdown provides a taste of what is to come: “Strict behavioural control, massive loss of jobs and growing dependence on the state.” “Only massive opposition can... stop the extension of the power grip of the tyrannical technocracy.”

How to be a better manager

firstround.com

The first rule of management is that it is a different skill than leadership, says Molly Graham. Leadership is about setting a vision and aligning the work around it. True management is, rather, about bringing out the best in the people. This isn’t easy: “Management is one of the hardest jobs in the world.”

Successful management involves recognising that you’re

not working with robots and trying to micromanage them. Teams are made up of humans independently trying to work towards a goal. So don’t try to manage how they work, but focus instead on whether they are achieving those goals.



Spend more time than you think you need to with your high performers. It’s easy to think they are doing well and leave them to it, but they are “the rocket ships that could end up running parts of the company some day”. Stretch them, expect big things of them, and see what they’re made of.

Remember that you won’t be able to help anyone else as a manager if you are drained and burnt out yourself. So take your holidays and don’t work punishingly long hours. You need to be your best self for others as well as for yourself.

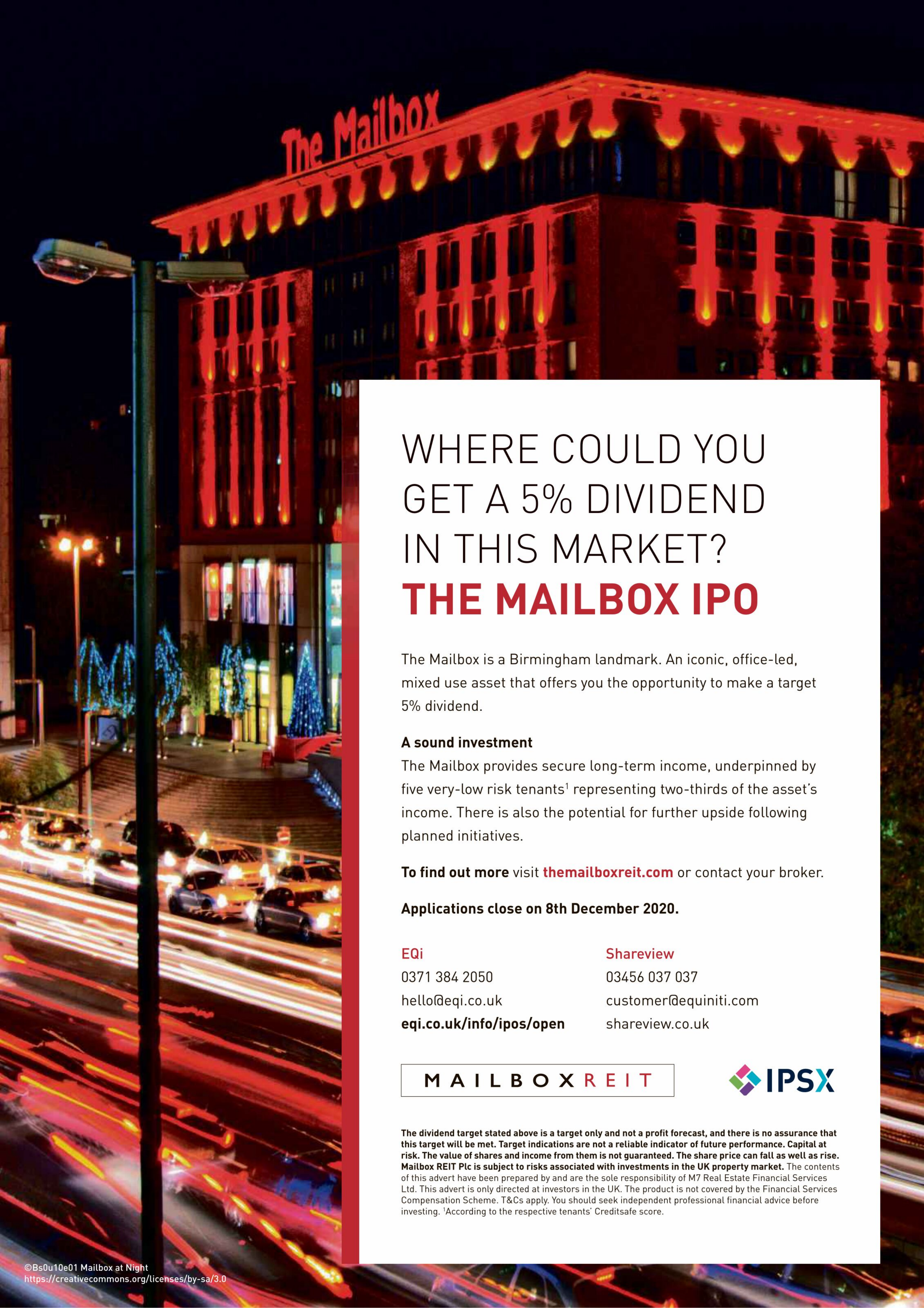
Libertarianism delivers the goods

cato.org/blog

The news of Pfizer’s promising trial results for its Covid-19 vaccine holds a useful political lesson, says Ryan Bourne. Although governments have “greased the wheels” of vaccine development by committing to buy doses, Pfizer chose not to become part of the US government’s Operation Warp Speed programme, which funds vaccine development.

Why not? Pfizer CEO Dr Albert Bourla says that the reason was that he wanted to “liberate our scientists from any bureaucracy. When you get money from someone that always comes with strings. They want to see how we are going to progress... They want reports. I didn’t want to have any of that... basically I gave [our scientists] an open chequebook so that they only had to worry about scientific challenges, not anything else.”

There’s a “libertarian regulatory lesson” here, says Bourne. As we have seen throughout the Covid-19 crisis, bureaucracy can hold up innovation. Political pressure and control throws sand in the gears, with huge costs in terms of constrained commercial activity and loss of liberty.



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The continent's economic engine is ready to accelerate

Germany is the most resilient and dynamic economy in a struggling region. Matthew Partridge reviews its strengths, explains how it is rectifying its weaknesses and highlights the best ways to invest

The 2010s was a dismal decade for Europe. It began with the euro crisis between 2010 and 2015, when sharp recessions and mass unemployment devastated southern Europe; the Covid-19 pandemic has snuffed out the tentative recovery. However, while Italy and Spain languish and France stagnates, Germany, the continent's powerhouse (it accounts for around 30% of eurozone GDP) proved resilient. Global momentum boosted its export-led economy, helping to ensure that GDP expanded by an average of almost 2% a year between 2009 and 2019, according to the World Bank, compared with an annual 1.5% for the rest of the EU. And Germany looks poised to outperform its neighbours in the next decade too, not least because it is moving beyond its traditional strengths of manufacturing and engineering into new industries.

A big post-Covid-19 bounce

Germany is deemed to have dealt with Covid-19 better than most developed countries. However, the social distancing and lockdowns mean that its economy hasn't emerged completely unscathed, with the OECD economic organisation of developed countries projecting that its GDP will fall 8% in 2020. A furlough scheme paying 60% of the salary of workers on zero or reduced hours has not been enough to stop unemployment rising to a five-year high of 6.2%.

Still, Germany has several advantages that will ensure that its economy bounces back more quickly than elsewhere, says Andrew Kenningham of Capital Economics. "Before the virus struck, Germany was growing much faster than other countries in Europe." It is also much less dependent on consumption and tourism, two areas that have been hit particularly badly by the pandemic and are likely to be the last to recover, even after a vaccine is distributed. By contrast, the German manufacturing sector has experienced much less disruption to production and demand.

Another reason why Germany should recover relatively quickly is because of its "strong balance sheet", says Kenningham. Germany is notorious for its puritanical distaste for government spending and debt (it is perhaps not a coincidence that the words for debt and guilt are the same in German). This meant that it went into the crisis with government debt equivalent to around 60% of GDP (compared with 85% for the UK, 98% for France and 138% for Italy).

While public debt has jumped over the last nine months, previous fiscal rectitude reduces the need for dramatic spending cuts and tax rises now and also provides scope for further support of the economy in 2021. The public sector isn't the only part of the economy that has been thrifty. German consumers are far less inclined to splurge than their Anglo-Saxon counterparts. Household debt in Germany is worth 54% of GDP, compared with 89% in Britain.

Exports power emerging markets

German manufacturing is an important engine of economic growth, says Dr Steve Coulter, head of industrial strategy, skills and sustainability at the Tony Blair Institute for Global Change. This is

because manufacturing accounts for a large portion of Germany's exports, which in turn comprise 50% of GDP (compared with 30% of GDP in the UK). What's more, many of these exports go to the fast-growing Asian economies, especially China. While the market for cars and machine tools, two of Germany's biggest exports, "virtually dried up overnight" during the first wave of the pandemic, it has quickly recovered.

There is always the risk that German companies may suffer from any move away from globalisation, especially if "Chinese consumers decide to start switching to domestic brands", says Coulter. Beijing is keen for domestic companies to shed their low-quality, bargain-basement image and start developing premium products, reducing demand for foreign goods. However, this is a bigger problem for the luxury-goods sector, dominated by the likes of France's LVMH, than for German manufacturers. The reputation of German companies is based on their ability to "deliver quality goods that are both reliable and reasonably priced".

German manufacturing excels at producing goods that target the "upper-middle part of the market", aimed at those who want something more than basic quality, but don't necessarily want to pay luxury prices. While this segment may be less prestigious than goods at the absolute top end of the market, it still leads to "surprisingly high margins" for firms that can supply the emerging middle class with popular products. Car companies, such as Mercedes and BMW, have been particularly successful in this context.

The Mittelstand: Germany's backbone

A unique feature of the German economy is the extent to which it relies on the Mittelstand. This segment of the economy comprises a vast number of small and medium-sized firms, but also larger companies with a substantial degree of family ownership or influence that distinguishes them from traditional listed or private companies. According to the Deutsche Börse, the German stock-exchange operator, 58% Germany's workforce is employed in the Mittelstand and it accounts for around 57% of economic output.

One of the main strengths of these firms is their ability to take a long-term view: they "spend a relatively high amount on research and development", says Joerg Zeuner, chief economist at Union Investment. This reinvestment means that they can punch above their weight when it comes to staying "on the edge of innovation" and "developing new ideas". They have remained competitive with global rivals in engineering and manufacturing. At the same time, they have increasingly been moving into new sectors, such as renewables.

Many people argue that smaller firms will always struggle to take advantage of economies of scale "and it's certainly true that their relative importance to the German economy has slightly declined over the past few decades", says Coulter. However, they still have several factors in their favour that bode very well for the future. While they compete fiercely between each other when it comes to selling products, "they are very good at organising collective training in order to ensure high

"German firms are known for delivering reliable and reasonably priced goods"



The Mittelstand remains competitive with global rivals

labour productivity”. They also have good relations with their local banks, “which are much more forgiving than those in the UK”.

Biotech: a new growth sector

One area that demonstrates the durability of the German model is biotechnology. Germany “has quickly become one of the leading countries in Europe for biotechnology-focused companies”, says Anthony Ginsburg, managing director of GinsGlobal Index Funds. The revenue of the German biotech sector climbed from €3.7bn in 2016 to €4.9bn in 2019. The number of German biotech firms has increased to more than 660, including 23 listed ones, with the workforce rising from 18,000 in 2015 to over 50,000 today.

A key reason for this is the large amount of money, both public and private, invested in research. If you count all universities, colleges and non-academic research laboratories, there are almost 202 research facilities in Germany. The German government is also working hard to make sure that research breakthroughs don’t just stay in the laboratory, but are turned into marketable products. It has created more than 30 biotech hubs to encourage “close collaboration between research institutes, technology parks, regional political players and biotech firms” and they are already starting to make “a big difference”.

Germany’s status as a major player in the biotechnology industry has been cemented by its performance during the Covid-19 crisis. Not only is the vaccine developed by the Mainz firm BioNTech the front runner in the race to be the first to win regulatory

approval, but Bosch and Roche have also successfully developed rapid diagnostic tests, with Roche’s antibody test showing a 99.8% accuracy rate. As of last month, there are 97 Covid-19 clinical studies under way in Germany – half of which have reached the trial stage.

The services sector is slowly improving

German firms may dominate engineering and manufacturing, but there is a general consensus that “the service sector is one of the German economy’s weak spots”, says Peter Dixon, senior economist at Commerzbank. This is partly because the focus on manufacturing has meant that the sector has been neglected.

Rules and regulations on anything from opening hours (good luck shopping on a Sunday) to licensing and permits, some of which date back to medieval times, are another problem. Finally, the government’s determination to balance the budget “has also limited the resources available for digital investment”. However, while “additional structural reform” is still required, [Germany’s] performance is often better than is popularly portrayed”. Pressure from the EU on Germany to open up its service sector to competition – by recognising foreign occupational qualifications, for instance, has worked. The number of foreign degrees acknowledged each year has risen to a record 36,000.

Germany’s financial sector also looks set to benefit from Brexit, in the short term at least. Britain is about to lose its “financial services passport”, which allows

“Germany’s service sector has been hampered by red tape; some regulations date back to medieval times”

Continued on page 28

Continued from page 27

financial institutions to sell their products across Europe. This arrangement will be replaced with a weaker regime based on “equivalence”. As a result, says Coulter, “many banks that used to employ 10,000 people in London now typically employ 8,000 in London and 2,000 in... Frankfurt. With the EU “trying to make life difficult for London”, whether a deal is agreed or not, banks are likely to remain cautious.

A new workforce

Until recently there was concern that Germany’s future growth would be hampered by an ageing workforce. At present the average German woman has 1.57 children. While this is higher than some European countries (Italy’s fertility rate is just 1.34, for instance), it is still far below the replacement rate of 2.1. As a result, Germany’s population is projected to peak in around five years’ time before falling from 83 million to 75 million by 2060. The ratio of elderly and retired people is also set to increase compared with the working-age population, slowing down growth and raising the burden on public services.

The good news is that this trend is being reversed, or at least postponed, by the increased inflow of workers into Germany. While Angela Merkel’s decision in 2015 to let in large number of refugees on humanitarian grounds may have dominated the political debate, the more important story is the “large amount of economic migration into Germany”, says Union Investment’s Joerg Zeuner. Most of this has been from within the EU, “mostly Eastern Europe, but also some migration from Spain and even Greece”. Immigration has helped bolster the fertility rate from a nadir of 1.24 in 1994.

Whatever the origins of the migrants, “they tend to be younger than the average German, which has helped improve the demographic outlook for Germany”, says Zeuner. They also tend to be relatively skilled and in some cases have even helped found new companies. An excellent example of a company founded by first- and second-generation Turkish immigrants is BioNTech (see page 37).



The German economy’s prospects have been improved by immigration

A buoyant property market

Germany’s strong growth outlook and more favourable demographics are good news for its property market, which has boomed over the last decade. While prices stagnated and even fell in real terms in the first two decades following the fall of the Berlin Wall, they appreciated by 123% between 2009 and 2019, according to Deutsche Bank.

This has led to a “lot of hand-wringing about property prices”, says Commerzbank’s Peter Dixon. But while there are “justified concerns” about valuations, “the simple fact is that in an environment of low unemployment and zero interest rates, property looks like a good place to be”.

Of course, a future “exogenous shock” could prompt a “correction”. However, the fact that it has “coped well with the biggest shock in living memory” this year suggests it will continue to boom. Even a reduction in bank lending, unlikely at present, won’t be enough by itself to “trigger a major turnaround”. Some ideas for investing in German property – and other promising areas – are in the box below.

“German property prices climbed by 123% between 2009 and 2019”

What to buy now

The simplest way to buy into the German economy is to invest in an exchange traded fund (ETF) such as the **Vanguard Germany All Cap UCITS ETF (LSE: VGER)**.

This ETF follows the FTSE Germany All Cap index, which aims to mimic the overall German stockmarket. The largest holdings are software company SAP, engineering firm Siemens and financial services company Allianz.

The ten largest holdings account for roughly half the fund. The ongoing charge is only 0.1%, and the fund trades at a price/earnings (p/e) ratio of 15.4, with a dividend yield of 3%.

If you want to invest in smaller German companies, consider the **Xtrackers Germany Mittelstand & MidCap UCITS ETF (Germany: XDGM)**. This focuses on the German market, but excludes the 30 largest companies

(these make up the blue-chip DAX index), leaving mostly mid-cap operators such as braking systems specialist Knorr-Bremse, cement manufacturer HeidelbergCement and medical-technology company Siemens Healthineers.

The largest portion of the fund’s holdings are in industrial companies, which account for a quarter of the portfolio. The ongoing charge is 0.4% and the fund trades on a p/e ratio of 15.7.

German biotech **BioNTech (Nasdaq: BNTX)** made headlines when reports were released earlier this month that its Covid-19 vaccine, which it is developing with pharmaceutical giant Pfizer, could be up to 90% effective in stopping infections, even in elderly patients.

Pfizer believes that it could have up to 50 million doses of the vaccine ready by the end of

the year and 1.3 billion available by the end of 2021. It has already pre-sold 230 million doses of the vaccine (mainly to Britain and the US).

In the longer run, BioNTech is developing cancer treatments that use the patient’s immune system. While BioNTech currently loses money, it trades at seven times estimated 2021 earnings.

One of the oldest German biotech companies is **Qiagen (Frankfurt: QIA)**. Although registered for tax purposes in Holland, its operational headquarters is the German city of Hilden. Qiagen mainly focuses on diagnostics and applied testing, including genetic research.

Over the last five years its revenue has been growing by around 7% a year. Among its many products is a portable digital Covid-19 antibody test that can process 30 samples an

hour. Qiagen trades at 20 times 2021 earnings.

While **Xtrackers FTSE Developed Europe Real Estate UCITS ETF (LSE: XDER)** isn’t a pure-play on the German real-estate market, since it invests in real estate in a number of countries, around a third of its assets are in Germany.

It is trading at nine times trailing earnings and has an annual fee of 0.3%. An alternative in this field is **Phoenix Spree Deutschland (LSE: PSDL)**, an investment trust that focuses on a diversified portfolio of 2,571 residential units and 141 commercial units.

These are spread over rental properties in the German capital, where there is a housing shortage. It is currently trading on 15.2 times current earnings, with a yield of 2.1%. It sells for an 18% discount to book value (the sum of its net assets).

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Where to look for income

Apparent high-yielding bargains often turn out to be value traps. But these property funds look solid

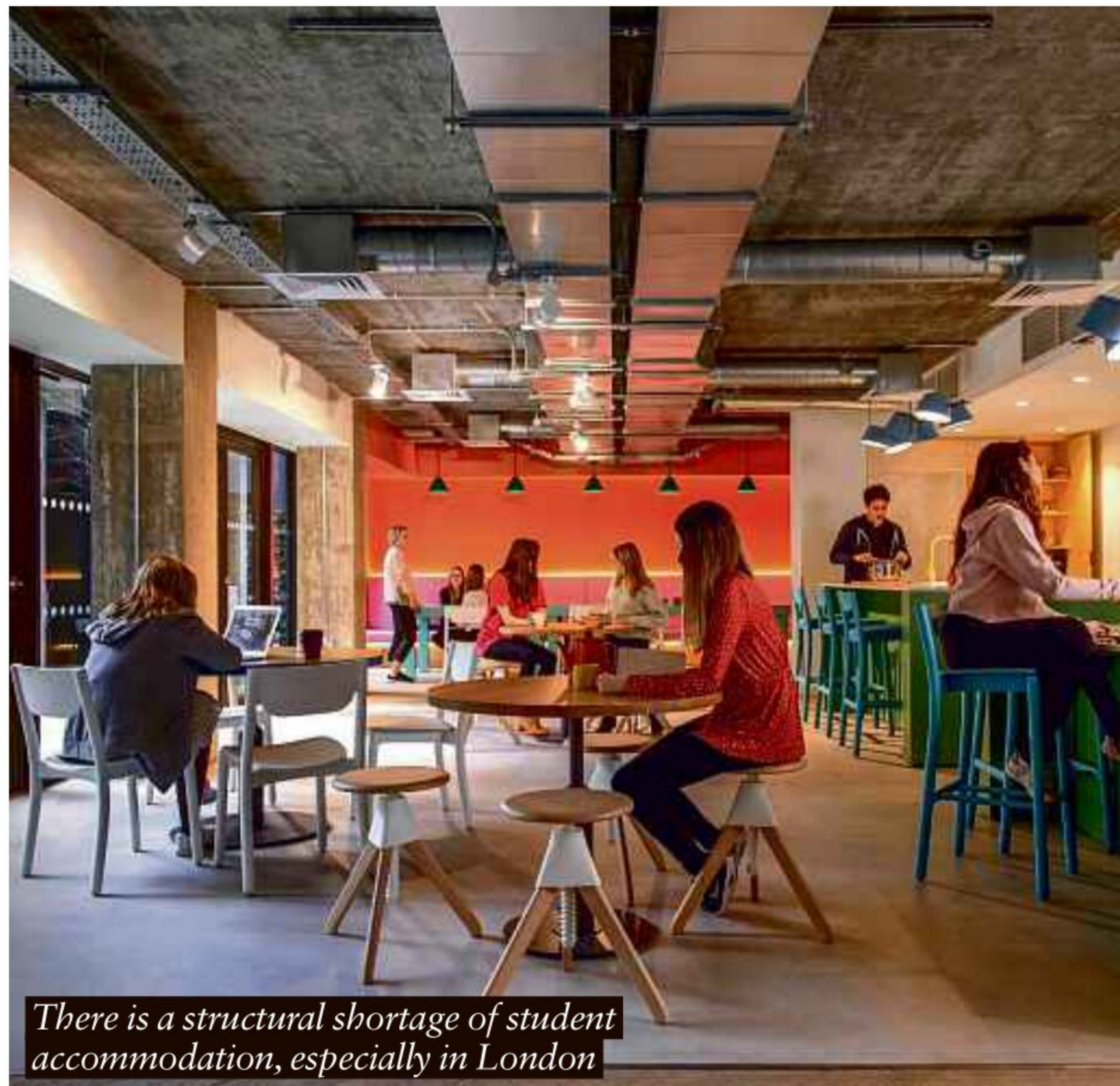


Max King
Investment columnist

What looks like a bargain often turns out to be anything but. With interest rates and bond yields at rock-bottom levels in recent years, many investors have poured money into equities offering not just a high yield but also the prospect of capital gains. Widespread dividend cuts earlier this year tore these hopes apart, providing an expensive lesson that if it looks too good to be true, it probably is. High-yielding shares have hidden risks but there are exceptions, especially when, as now, investors are cautious.

Many funds in the property sector, for instance, weren't getting the benefit of the doubt, yet the decision by ICG Longbow (LSE: LBOW) to commence an orderly wind-up, resulting in a 16% jump in the share price, shows that the market isn't always right. The shares now yield 7% and trade at a 13% discount to net asset value (NAV), so they still look attractive.

Investing in property loans
UK Mortgages (LSE: UKML) also invests in property-backed loans so its income is not sensitive to the capital value of the underlying property, only to the credit-worthiness of the borrower and the security backing the loan. Launched in 2015, it is managed by



There is a structural shortage of student accommodation, especially in London

Twentyfour Asset Management, a boutique firm specialising in fixed interest, and has £186m of net assets invested in residential mortgages. The portfolio consists of six pools containing £1.65bn of mortgages in total, a quarter owner-occupied, the rest buy-to-let.

These pools were assembled by the lenders, such as Coventry Building Society, and then "securitised" with low-cost loans. The residual £172m (there is £14m of cash) provides UKML with a yield close to 10%, enabling it to target a total return of 7%-10% per annum after costs.

Clearly, the portfolio is highly leveraged but the

average mortgage size is under £200,000, the average loan-to-value is below 70%, the average interest rate is 2.7% and less than 0.5% of the mortgages are three months or more in arrears. The number of payment holidays is falling and Nationwide has reported that house prices increased by 5% annually in September, the highest growth rate in four years. Despite this, the shares at 67p yield 6.7% and trade at a 16% discount to NAV. Yet a few months ago M&G, on behalf of one of its funds, bid 67p a share, a bid that was later increased to 70p.

M&G's fixed-interest team is highly regarded so the bid was a powerful endorsement of the

outlook for the portfolio and its rejection by UKML's board implies that they agree. UKML also states that "fair value (ie, NAV of 80p a share) is not projected to represent a simple realisable value as the portfolios will be held to maturity". The realisable value is stated at 95p a share so the shares still look cheap.

A Reit poised for growth

The shares of GCP Student Living (LSE: DIGS), a real estate investment trust (Reit), trade at a 17.5% discount to NAV. Management expects to receive only 62% of budgeted income this academic year compared with 82% in 2019-2020 and a five-year average of 94%. The structural shortage of student accommodation, especially in London, which accounts for 80% of DIGS' assets, underpins long-term letting prospects but the short-term fall in income has led to the dividend being slashed. This year's expected income after expenses should still be nearly double financing costs but that would only leave enough to cover a dividend of around 2p.

Restoration of the 6.2p dividend would imply a 4.4% yield and, perhaps, return the shares to the premium at which they traded before the pandemic. With mass vaccination just a few months away, the outlook for providers of student accommodation has brightened. The shares of DIGS still look attractive.

Activist watch

St James's Place (SJP) has been "blasted" by an activist investor over its excessive executive pay and "disappointing" share price performance, says Lucy White in the Daily Mail. Primestone Capital has the UK's biggest wealth manager "in its crosshairs". It wants SJP to address its "bloated" organisational structure and "excessive hiring". Primestone is stepping in after several years of criticism of the incentives SJP offers to its partners, "including luxury holidays and white-gold cufflinks". Over 25% of its employees earn over £89,000, a "staggering statistic". Even though the amount of money under management has more than doubled since 2015, profitability has declined by 20% and the shares have barely budged: they have gained a mere 2%.

Short positions... vaccine news sickens hedge funds

■ South Korea's status as a financial hub is being threatened after an investigation into South Korean hedge funds whose investments have lost billions of dollars has turned into a political scandal, says Song Jung-a in the Financial Times. Lime Asset Management and Optimus Asset Management, two big South Korean hedge funds, have been accused of misappropriation and embezzlement after they froze withdrawals owing to liquidity problems and have been under investigation since June. This has raised wider concerns over governance in South Korea, where some politicians and regulators have been accused of taking bribes. Private investment funds in the country have "boomed" since 2015, when the minimum investment amount was cut from Won500m (£341,400) to Won100m. But lax supervision has resulted in several scams and cases of mis-selling: thousands of investors are believed to have suffered losses of Won5.5trn since August 2019.

■ Hedge funds learned the hard way last week that "the trend is your friend until it isn't", say Lu Wang and Melissa Karsh on Bloomberg. After the announcement of a Covid-19 vaccine reached the stockmarket in the US, both bullish and bearish funds saw their alpha, "the extra return above an equity benchmark", drop the most since March. "Market winners and laggards" flipped positions at the fastest rate on record. Airlines and banks, which have been affected particularly badly by the pandemic, rocketed while the "high-flying stay-at-home stocks" plunged. Zoom slumped by 15% between Monday and Thursday, while online bicycle-workout group Peloton slipped by 14% over the same period. "It marks a rude awakening for anyone who piled into bets that winners will keep winning."

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Political hot air lifts hydrogen stocks

Boris Johnson is committed to a green revolution. Hydrogen, long touted as the obvious answer to our energy woes, will have to be at least a part of that vision. Stuart Watkins reports

Imagine a future where your kettle, your washing machine, your plug-in car and “the whole lot of them will get their juice cleanly and without guilt from the breezes that blow around these islands”, as Boris Johnson invited his audience to do at the virtual Conservative party conference earlier this year. Imagine Britain as the Saudi Arabia of wind. Imagine wind power propelling this country to “commercial greatness” again, just as it once puffed the sails of Drake and Raleigh and Nelson. Imagine a future, post-Covid-19, when investment in new energy technologies has boosted the economy, created tens of thousands of new jobs, and helped the UK to meet its target of net-zero carbon emissions by 2050. It’s easy if you try, no doubt. But though you may call the PM a dreamer, he’s not the only one. Europe and China have committed to similarly bold plans, as have Saudi Arabia, Japan and Korea; the US seems likely to too, now that Joe Biden is on his way to the White House. Investors have been placing their bets: the S&P Global Clean-Energy Index has climbed by over 70% since the start of this year.

From vision to reality

This week, Johnson outlined his plan for a “green industrial revolution”, including pulling forward a ban on new cars powered by fossil fuels to 2030, plus investing billions in “green jobs”. But the wind blowing around these islands, not to mention the hot air issuing forth from Conservative podiums, will not be enough on its own to keep the lights on. As *The Times* points out, progress has already been made towards the goal of decarbonising electricity networks. But to make further progress towards the government’s legal commitment to net zero by 2050 will require additionally decarbonising heavy industry, transport and heating. Electricity, however, no matter how cleanly produced, is not up to the job of smelting iron or lifting jumbo jets.

That means hydrogen will have to play a role. Indeed, one of Johnson’s ambitions is for a British town to be heated “entirely by hydrogen by the end of the decade”. Its potential as a clean fuel has long been recognised. It is the most abundant element of all and the only waste product produced when it is used as fuel is water. It is already in use in a number of pilot projects. It fuels buses in London and Aberdeen, and ferries in Orkney. Trials of hydrogen-powered trains have begun, and the Tees Valley is set to host the UK’s first hydrogen transport hub. Earlier this year the world’s first hydrogen plane flew over Britain – with commercial flights commencing by 2023, it is hoped. ArcelorMittal Europe aims to produce its first “green steel” using hydrogen technologies this year.

Yet the obstacles that remain before hydrogen’s full potential can be realised – and a “hydrogen economy” replaces our current one running on fossil fuels – remain considerable. Hydrogen, although abundant, is not found just lying around in pure form. Most of the hydrogen produced in Britain is made by burning fossil fuels. It is possible to produce “green” hydrogen

“Electricity, no matter how green, will not smelt iron or lift jumbo jets”



A greener future is blowing in

instead, by electrolysis using renewable energy, but costs remain prohibitive. Still, as *The Times* notes, it’s “probably right” that Johnson “not lose sight of the long-term prize” here. Renewable energy costs have tumbled over the past decade; the cost of green hydrogen is likely to do so too. And other countries, including Germany, China, Japan and the US are investing in the technology. Goldman Sachs estimates that green hydrogen could be a \$10trn global market by 2050, driving investments in renewables, electrolysis, pipelines and storage.

The challenge, as Dieter Helm, a professor at Oxford University, points out in the *Financial Times*, is of turning the grand vision into a reality. “The energy scene is littered with the debris of grand visions and bold initiatives,” he says. The PM has, for now, merely added to it. If the rhetoric is to be transformed into something of substance, action is urgently required. The UK’s coal industry is now “effectively closed and the nuclear fleet is ageing”. The long-promised energy white paper “must be delivered and decisions taken. Otherwise, the lights might go out and the carbon targets be missed”.

Hydrogen might well be one of the key planks on which to build a proper energy policy “after two decades of dither and uncertainty”, and Johnson is “good at willing the ends, if only vaguely”, says Helm. But Johnson must also will the means: ensuring appropriate infrastructure is in place and providing an appropriate regulatory and institutional infrastructure, for example. Doing all this and more would be a “great legacy for the prime minister” – assuming he will act “and pay for it too”. As an FT editorial points out, Germany has already set out a recovery plan with an estimated €40bn of detailed green measures. France has pledged almost a third of its €100bn recovery fund to green investments, including hydrogen. All this is a “far cry from what the British government has announced so far”.

How to invest

Still, the speculation and the government subsidies already announced have made hydrogen the “energy buzzword of the moment” among investors, as George Hay of Breakingviews puts it. That is reflected in the “toppy valuations” of the main players in the industry, and “investors might be forgiven for avoiding

“The investment opportunity for hydrogen is really more in renewable energy”

would be tempting to ride the momentum, but be aware that, at least in the case of the purer plays, you will be making risky bets on companies that have yet to make profits and on the likelihood of further progress over the next 20 or 30 years in the highly uncertain energy revolution already outlined.

But there's a way to get some exposure and hedge your bets at the same time. Hydrogen can only live up to the hype if it is able to ride the coat-tails of the more general transition to a lower-carbon future. To stand a chance of doing that, the hydrogen produced will have to be “green”. That means that the growth of a hydrogen economy depends on growth and development in renewable energy. “The... investment opportunity for green hydrogen is really, actually, in more renewable energy,” as BNP Paribas analyst Mark Lewis told CNBC. To meet the EU's goal of producing as much as ten million tonnes of renewable hydrogen by 2030, for example, about €400bn of investment will be required, reckons Lewis. “Fully half of that is for dedicated new renewable energy capacity. So this is only going to increase the growth opportunity that was already there around renewables.” The real opportunity, then, says Lewis, is in the capital goods companies that build the electrolyzers (an example is Siemens, which MoneyWeek suggested as an option earlier this year) and renewable energy projects more generally. You can play the latter theme via two clean-energy exchange-traded funds – the iShares Global Clean Energy (Xetra: INRG) and the Lyxor New Energy (Xetra: NRJ) ETFs.

Among investment trusts, **Renewables Infrastructure Group** (LSE: TRIG) was popular with MoneyWeek readers when we asked in our 1,000th issue what you would invest £1,000 in until 2030. Edward Sheldon of Motley Fool likes it too: the FTSE 250-listed trust is “one of the best UK renewable energy investment trusts” out there, he reckons. It owns a broad portfolio of wind and solar farms in the UK and Europe and aims to provide investors with regular dividends. It has a trailing yield of about 5%.

hydrogen altogether, especially as a similar burst of sector enthusiasm two decades ago proved short-lived”. This time around, an enthusiasm for environmental, social and governance (ESG) investing is also inflating valuations as fund managers snap up anything that appears to be “on the right side of the energy transition. That could keep share prices elevated even if the returns that justify the hype remain a long way off”.

Indeed, all of the stocks suggested by MoneyWeek last time we covered the sector earlier this year – Ceres Power (Aim: CWR), ITM Power (Aim: ITM), McPhy Energy (Paris: MCPHY) and Siemens (Frankfurt: SIE) – have soared since, rising fivefold in the case of McPhy. It

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Give your money away

Avoid tax by passing money on to your family while you are still here



Ruth Jackson-Kirby
Money columnist

Many of us worry about inheritance tax (IHT) and how we can minimise how much of our estate goes to the taxman. One way to reduce his take and significantly improve the finances of the younger generation is to give away your money while you are still alive.

Nearly £1trn will be inherited over the next decade. However, says Steve Webb in The Times, “there is a problem: the average age of inheritance is rising and for many people these windfalls... come too late in life.”

Research by the Institute for Fiscal Studies has found that the average person born in the 1960s will be 58 when their last surviving parent dies. For those of us born in the 1980s the figure rises to 64.

“The wealth of the retired population could do much more good if it were received by sons and daughters in their forties or even grandchildren in their twenties,” says Webb.

With interest rates pitifully low the benefit of giving away some money while you are still alive grows. You can get far more joy from watching a gift help a loved one get on the property ladder or start a family than watching it stagnate in a cash Isa.

So, if you want to start passing on inheritance money while you are still alive what's the best way to do it? Before you start doling out the cash think about how much you will need. Only give away what you can afford to lose; don't risk your retirement or money to cover future care costs. Anything you give away will not count towards

“The average person born in the 1960s will be 58 when their last parent dies”



a future inheritance-tax bill, provided you live for seven years after the gift. Everyone can give away up to £3,000 a year and it is immediately excluded from your estate for IHT purposes. You can carry over the previous year's allowance if you didn't use it.

“An often-overlooked inheritance-tax exemption can allow grandparents to chip in towards their grandchild's education costs

without risking a tax liability,” says Rachel Rickard Straus in The Mail on Sunday. “Gifts of any amount are free from inheritance tax if made

regularly and out of income rather than savings.” Not sure where to put your gift? Children can have a Junior Isa where up to £9,000 can be deposited each year and grow tax-free. If you have a relative looking to buy a house you could contribute towards a Lifetime Isa to help them with a deposit. “A well-timed gift could fund the deposit for a first home, the cost of a wedding, or [make]... further study an option,” says Webb.

Look beyond the high street for yield

With interest rates close to zero, finding a decent return on your savings is nearly impossible. “A decade ago... the average instant-access savings account paid 0.79%,” says Laura Shannon in The Mail on Sunday.

“Today, high-street banks are disgracefully paying just 0.01% on such accounts – equivalent to a tenth of the Bank of England's base rate of 0.1%.”

However, there are better rates available. “Don't deposit your money with high-street banks – there are better rate elsewhere. Although you might need to choose a brand name you've not heard of before, you can do so safely,” says Anna Bowes, co-founder of Savings Champion.

For example, the best one-year bonds pay 1% or more and are offered by Tandem, Zopa Bank, OakNorth Bank and United Trust Bank. You can earn 1% on a 35-day notice account from Pakistani bank UBL. The account can be opened in person or by post with as little as £1. Al Rayan Bank and BLME are Shariah-compliant banks offering the best long-term fixed rate bonds: 1.42% and 1.5% on three and five-year terms respectively.

For the best instant-access savings look at app-based Atom Bank, which is paying 0.75%. Deposits in all of these accounts are protected by the Financial Services Compensation Scheme up to £85,000 per person.

Pocket money... green home grants flop

■ “The government's plan to insulate England's draughty homes is faltering because builders and installers are failing to sign up, leaving thousands of households unable to access the £3bn green home grants,” says Fiona Harvey in the Guardian.

The plan was for the Green Home Grants to help people cut their gas and electricity bills while reducing carbon emissions. But since September only 1,174 installers have signed up to the scheme, while over 36,000 householders have applied for the grants.

“Households wanting to take advantage of the green home grant must find an accredited installer to do the work, but

many are reluctant to invest the time and money needed to gain accreditation.”

■ Personal debt defaults have almost doubled in a month, making “the sharpest rise in missed payments since the start of the pandemic,” reports Kate Hughes in The Independent. Close to 800,000 people failed to meet their obligations in October, up from around 370,000 the previous month. “A missed payment is widely acknowledged by the financial services industry as an indicator of significant financial difficulty...the date points to dramatic changes in personal financial and employment circumstances as businesses

and individuals anticipated the scaling back of state-funded support measures.”

■ “Customers of a new Virgin Money current account... will find the 15 bottles of free wine a better perk than the interest,” says Kate Palmer in The Sunday Times. “At... 2.02%, customers would have to keep £1,000 in the account for nine years to equal the value of the case of red and white wine with one bottle of prosecco.” The case is valued at £180. The rate falls to zero on amounts over £1,000. “Rates for savers are enough to drive anyone to drink.”

■ Complaints about the DVLA have “soared during lockdown

after Britons have been forced to wait for months to receive passports or driving licences”, says Marianna Hunt in The Sunday Telegraph. Mediation service Resolver has seen a sevenfold increase in complaints since April, hearing from 4,999 motorists since then. “Before the first lockdown the DVLA removed the email address on its website so people could contact it only via an online form, webchat, phone call or post. These services were inundated.” The DVLA “also took documents for ID purposes and held on to them, leaving people without passports,” so they missed holidays, Resolver's Martyn James told The Daily Telegraph.

Beware of equity-release

Struggling savers should think twice before tapping their homes for money



David Prosser
Business columnist

Equity-release specialists report a surge in demand from homeowners in their sixties forced to stop work earlier than expected or concerned about the impact of Covid-19 on their finances. More people than ever before are turning to their homes to bolster their income. For the cash-strapped, equity release has never looked more appealing. Not only have house prices hit record highs, but interest rates are also historically low. The most competitive equity-release plans now carry annual rates of less than 2.5%.

But even at these lower rates, the cost of equity-release plans builds up over time, potentially leaving borrowers with little or no property wealth to pass on to children. The younger the borrower when they take out the equity-release plan, the higher the costs are likely to be.

Plan providers usually require homeowners to be at least 55 before they will lend to them. In the past, however, the average borrower has typically been significantly older – often in their seventies – which makes the product more affordable.

This reflects the nature of the product. Most equity-release plans are mortgages secured against your home, but with no repayments due while you



Converting the capital in your home to income comes at a cost

remain in the property. Instead, interest rolls up over time and is repayable, along with the capital borrowed, when you finally move out of the property, or on your death.

How the payments spiral

This structure appeals to homeowners who need to convert the capital in their homes into income. The mortgage can be drawn down over time or invested to generate an income – without having to worry about repayments. But with interest charges subject to additional interest, the total amount owed can spiral rapidly.

A 75-year-old homeowner releasing £60,000 of capital from a home worth £300,000 would owe around £77,000 by age 85, assuming an interest rate of 2.5% on the plan. Someone

taking out the same plan at age 65 would owe almost £99,000 by the time they reached age 85.

However, today's equity-release plans are more flexible. For example, drawing down cash as you need it, rather than in one lump sum, can keep costs down as you only pay interest on the money you have taken out of the scheme. You may also have the option of paying interest charges as you go along, cutting the total cost.

Still, financial advisers describe equity-release plans as a last resort for older people worried about their income. For many people, it may make more sense to downsize, freeing up cash by moving to a smaller property. It is crucial to take high-quality independent financial advice before opting for an equity-release plan.

Dashboard remains on drawing board

Online pension dashboards, first unveiled by the government in 2016, are unlikely to be available until 2023, the Department for Work and Pensions has warned. The initiative was supposed to enable savers to see all their pension schemes – including workplace pensions and individual plans – on a single screen, but the launch of the dashboards has been repeatedly delayed by technical problems and arguments about how they should operate.

Pension experts have expressed dismay at the latest delay. There is widespread concern that many savers have little idea of what their overall pension position is, and that many are losing track of small pots of cash. The typical Briton now pays into around a dozen pensions during their career, starting a new plan with each new employer. That makes it difficult to stay on top of planning for retirement.

The solution for many savers may be to consolidate their pensions, moving all their different pots of cash into a single plan that is easy to follow. However, take financial advice before doing so. Pension transfers are not always the right move. For example, if you have a defined-benefit plan guaranteeing a certain level of pension in retirement, moving this money would almost certainly be unwise.

Ethical pensions trend could boost occupational schemes' charges

■ Millions of savers with workplace pensions may have to accept higher charges if they want to move their money into ethical and environmental funds.

The Association of British Insurers (ABI) says that the higher cost of running these funds means its members are often unable to offer them to members of workplace pension schemes, where maximum charges apply.

Under the auto-enrolment pension legislation, workplace pension funds must not charge more than 0.75%

a year. However, the ABI says that fund managers investing according to environmental and ethical principles face higher costs owing to the need to research potential investments so

carefully. It is therefore pushing for the cap on charges to include an exemption for green funds.

■ Pension advisers are warning employers to be

careful about communications to members in the light of the extension of the government's Job Retention Scheme (JRS) amid the Covid-19 pandemic. The JRS now pays 80% of the wages of staff placed on furlough because of the pandemic, but unlike in previous iterations of the scheme, employers are responsible for paying staff pension contributions. This has led to concern that some employers may try to persuade staff to opt out of the company pension scheme – even though doing so is illegal.

■ The compensation owed to tens of thousands of women whose state pensions have been wrongly calculated could reach £100m, new analysis shows. The Department for Work and Pensions has set up a specialist unit to process claims from women who believe they may be affected: largely married women who began claiming their pensions between March 2008 and April 2016, and whose benefits are linked to the national insurance record of their husband or former husband.



©Getty Images

Investors will grow profits in the pot sector



A professional investor tells us where he'd put his money. This week: Greg Taylor, portfolio manager of The Medical Cannabis and Wellness UCITS ETF

While the US election may still be disputed at the presidential level, there is no doubt that the medical cannabis sector was a winner. Ballot initiatives to legalise medical and/or recreational cannabis were passed in five states. Most significantly, New Jersey legalised cannabis for recreational use (it already permits the drug for medical purposes); this is expected to create a domino effect in neighbouring states on the heavily populated eastern seaboard.

As the sector gathers momentum in the US, the stage is set for the rest of the world to follow it on the path of legalising medical cannabis. Share prices have reacted positively to these developments but there is still tremendous upside.

Supplying the greenhouse

Hydroponics retailer GrowGeneration's (Nasdaq: GRWG) expansion is directly tied to the proliferation of the US cannabis trade. The group's products range from lighting fixtures and seeds to humidifiers. All large operators turn to GRWG to service their cultivation operations. The company exceeded revenue expectations in the third quarter of 2020 and has continually raised its sales guidance throughout the year as growth has been propelled by several tailwinds.

The industry is fragmented and GRWG has established itself as a reliable supplier for major operators across many regional markets in the US. We expect GRWG's success to continue as the current environment of state-level cannabis legalisation supports long-term revenue growth trends.

Despite the challenges associated with Covid-19, Britain's GW Pharmaceuticals

(Nasdaq: GWPH) continues to enjoy increased adoption of its cannabis-derived drugs. Epidiolex meets a serious need in the field of epilepsy and the company expects strong growth for the treatment over the next few months.

The company has started advanced programmes for the treatment of multiple sclerosis spasticity. It recently decided to accelerate several clinical-stage pipeline trials in this field. The current revenue base continues to grow thanks to the epilepsy treatment, but with its pace of research and development, GW Pharmaceuticals is well positioned to be a leader in several cannabis-derived drugs in the near future.

A saviour in the property sector

An interesting by-product of the current legal regime of cannabis in the US is the emergence of Real Estate Investment Trusts (Reits) as a source of financing in an industry hampered by regulations – the drug remains illegal at the federal level.

With limited access to capital, the US cannabis industry has struggled to keep up with exponential demand; buying land and property for its production facilities has often proved problematic.

But it has found a saviour in the form of Industrial Innovative Properties (NYSE: IIPR). The group buys and then leases out properties to pot firms, helping them cut capital costs and make the most out of limited resources.

The current set of leases will be serviced at some of the highest rental rates for industrial properties in the country, reflecting the risk inherent in the tenants' industry, but this also means investors are willing to ascribe a higher valuation to IIPR than to traditional Reits.

"GW Pharmaceuticals is well placed to be a leader in several pot-based drugs"

If only you'd invested in...

Computacenter (LSE: CCC)
Share price in pence



Computacenter (LSE: CCC) has supplied both public and private-sector employees working from home with computers and software this year. It entered the fourth quarter with a "strong backlog of orders", says Giulia Bottaro on Proactive investors. The firm recently acquired a Canadian IT company, which should give it a significant fillip next year. In the first half of 2020 Computacenter's profits rose to £72.4m, up from £50.8m in the same period of 2019, says Emily Nicolle on City AM. The stock has gained 59.2% in a year.

Be glad you didn't buy...

C&C Group (LSE: CCR)
Share price in pence



C&C Group (LSE: CCR) is a drinks company that manufactures and distributes beer, cider, wine and spirits across the UK. It has been under severe pressure this year as pubs, bars and restaurants have been forced to close, says David Madden on CMC Markets. Sales plummeted by over 55% year-on-year to €386.4m in the six months to the end of August, and cash flow plunged to -€28.4m this year. As restrictions endure in the UK and Europe, "the outlook is likely to remain subdued in the next couple of quarters". The shares have slipped by 50% in 12 months.



The boffins behind the Covid-19 vaccine

An unassuming Turkish-German couple had already made their fortune as biotech entrepreneurs when a strange new virus emerged in Wuhan. They saw it as their duty to leap into action. Jane Lewis reports

Ugur Sahin (pictured, left) and Özlem Türeci are rapidly becoming “the most celebrated marriage in science since Marie and Pierre Curie discovered radioactivity”, says The Times. The Turkish-German couple behind BioNTech, which developed the breakthrough Covid-19 vaccine with Pfizer, are just as cosy as their eminent predecessors. They ride everywhere on bikes and spent their honeymoon in white lab coats. When Pfizer’s boss Albert Bourla telephoned to deliver the good news that the vaccine was 90% effective, they celebrated with a cup of tea.



©Felix Schmitt/Focus/Evevine

“News of the vaccine saw BioNTech’s value shoot up to \$21.9bn – more than four times that of German national carrier Lufthansa”

Operation Light Speed

It was the culmination of a long year’s work. Until last year, BioNTech, founded by the couple in 2008 and based in Mainz, was best known for building personalised cancer “vaccines” using messenger ribonucleic acid (mRNA) technology, which uses the cell’s genetic machinery to prompt the body to mobilise against tumours the way it would against a virus. That pioneering work won them the Nobel Prize for Medicine in 2018 and cemented a small personal fortune when BioNTech floated in New York last year. But the couple have always lived modestly.

They were having breakfast in late January when Dr Sahin, 55, mentioned an article he’d read in The Lancet about a strange new disease that appeared to be spreading in Wuhan, China. “When he

researched the air links between Wuhan and other cities, he realised that Covid-19 was likely to become a global pandemic.” The couple sprang into action, assigning 600 employees to the hunt for a vaccine in an operation they dubbed Light Speed. As Dr Türeci, 53, puts it, they felt a “moral” imperative to help. Fortunately, their “versatile” mRNA technology proved adaptable. And it was a no-brainer to team up with Pfizer, for whom BioNTech had previously developed flu vaccines.

News of the Covid-19 vaccine saw BioNTech’s value shoot up to \$21.9bn – “more than four times that of German national carrier Lufthansa”, reports The Guardian. They themselves are now worth around £3bn. Since Dr Sahin and Dr Türeci are both children of Turkish

gastarbeiter (guestworkers) – an often harried group – their success, as the Berlin newspaper Tagesspiegel noted, was “balm for the soul” of Germans with Turkish roots, after decades of being stereotyped as lowly-educated greengrocers.

A high passion for science

Yet the pair have very different family backgrounds. Dr Sahin is the son of a car factory worker; Dr Türeci’s father was an Istanbul surgeon. She says science has always been her “high passion” – a trait she shares with her husband, who grew up wanting to become a doctor, says The New York Times. They met as students at Saarland University Hospital.

Initially focused on research and teaching, the couple got into business early – founding Ganymed Pharmaceuticals in 2001, says The Times. By the time they came to sell Ganymed for €1.3bn, they’d already established BioNTech as a separate vehicle. The couple have struck up a close friendship with Pfizer’s chief executive Albert Bourla, who is Greek – bonding over “their shared backgrounds as scientists and immigrants”.

According to Dr Sahin, the success of their research proves the benefits of a cosmopolitan exchange of ideas. “In our company we have people from more than 60 countries. In science it does not matter where you are from, what counts is what you can do and what you are willing to do.”

Great frauds in history... John MacGregor’s dodgy loans

John MacGregor was born in Drynie in the Western Isles of Scotland in 1797 and emigrated to Canada with his family in 1803. After a brief involvement in local politics, he moved back to Liverpool in 1827, then briefly worked as a businessman before spending the next two decades in increasingly senior civil-service roles at the Board of Trade. He was elected to Parliament as a Liberal for Glasgow in 1847. He also helped found the Royal British Bank, with businessmen John Menzies and Edward Mullins, and would become its chairman after it was granted a royal charter in 1849.

What was the scam?

From the moment it was set up, the bank was brought low by a combination of bad business loans, including to a Welsh ironworks, and large personal loans to the directors and their friends. These included a £70,000 (£6.59m today) loan to Humphrey Brown, the MP for Tewkesbury, £30,000 (£2.82m) to the bank’s manager, £14,000 (£1.32m) to John Gwynne, £7,000 (£659,000) each to John MacGregor and Edward Mullins, and £2,000 (£188,300) to auditor Thomas Chandler. To hide the bank’s distressed state from its shareholders and depositors, the accounts were

falsified and dividends were paid out of capital.

What happened next?

By 1856 rumours were flying around the City of London. The Joint Stock Companies Journal published a series of articles about the bank’s problems, although without mentioning it by name, leading to awkward questions at the half-yearly meeting in August. By early September the bank was forced to suspend business and the fraud was revealed a few weeks later. MacGregor died in France after fleeing the country. The eight surviving directors were convicted of fraud, though they served only nominal sentences.

Lessons for investors

By the time it collapsed, the bank’s liabilities were £539,131 (£50.75m) with only £288,644 (£27.1m) in assets. In the legal battle between shareholders and depositors, the courts ruled that the fraud did not diminish shareholders’ liability, despite the fact that around 40% of them were widows, spinsters, tradesmen or servants. The depositors had to settle for around three-quarters of the money they were owed. Unlimited liability has all but disappeared today, but it’s still worth checking if those making guarantees are in a position to stand by them.

A Winter Selection



It is funny how sometimes I relax into my wine world, keeping my head down, writing my articles, tasting and talking about wine, and little seems to change. Vintages come and go and the status quo seems to be maintained. This year, in particular, has been rather even from a vinous point of view. No travel, fewer wines tasted than normal and little out of the ordinary – in fact too much of the ordinary! However, every so often, a volley of bottles arrive on my tasting bench and their flavours awaken my

palate as if it were the very first day of my wine life. Swig is a wine company which never fails to keep my palate on its toes and this month's selection of wines is incredible. Each wine owns its unique aroma and flavour and in every example, they are precise, genuine, intense and, in some cases, completely original. Give yourself a break from 2020's tedium with this selection of extraordinary wines.

Matthew Jukes

Matthew

- All wines come personally recommended
- Exclusive discounts and FREE UK delivery
- No membership needed

Prices shown below are per case of 6 bottles. Wines are also available in a 12 bottle mixed case (2 of each of the wines) **excellently-priced at £180 (saving £31.70 per case)**. It's a chance for you to try them all, and it is the most popular choice with readers of *MoneyWeek*.



£19.95
£15.95

2016 Pierre, Mauzac Brut Nature, Limoux, Carcassonne, France

I rarely write up sparkling wines for our Wine Club because I am conscious that I want to keep the prices keen and the flavours top-notch and this balancing act is a tricky one in the world of fizz. It is no surprise though that Swig has an exception to this rule. Limoux is southern France's sparkling

home and this bone dry Mauzac/Chenin Blanc blend is a wickedly enticing wine. The nose is perfect and the palate is razor-sharp and, in between, the wild flower-scented, silky fruit is lip-smacking. This is an amazing find.

CASE PRICE: £95.70



£12.50
£10.95

2019 Ortrugo dei Colli Piacentini, Bonelli, Emilia Romagna, Italy

Trust me when I tell you that this innocent-looking white, made from the ultra-rare Ortrugo grape variety is exactly what every Sauvignon Blanc drinker in the country should switch to this month! Only found in the Piacenza hills, this refreshing, nervy, herb and elderflower-scented grape is a genuine find and you

are unlikely to find a white with this degree of purity and brightness if you spent a year tasting flat out! This is a benchmark aperitif for every adventurous palate imaginable!

CASE PRICE: £65.70



£17.95
£16.50

2019 Boina Branco, Douro, Portugal

This is yet another brand-new discovery made from a suite of rare, indigenous grapes, including Rabigato, Viosinho, Códaga do Larinho and Síria. The curious tangy acidity here marshals the pliable expressive palate. Grown alongside red Port grapes, this is very much beauty

to Port's beast! The flavour is unique and it manages to balance being fleshy and stone-fruit blessed as well as being savoury and mineral which is a terrific trait. Uniquely flavoured and uniquely mesmerising – three cheers Swig!

CASE PRICE: £99



£14.95
£12.50

2018 Château La Lauze, Vieilles Vignes, Faugères, Languedoc-Roussillon, France

This wonderfully intense wine owes its flavour prowess to its 80-year-old Carignan, Grenache and Syrah vines. The blackberry and spice notes are simply superb, not just another sunshine-soaked, southern French blend, but a truly extraordinary wine.

The silkiness is sensational and the bite of earthiness on the finish is Faugères down to a tee, in short, this is a turbo-charged, wintry, bargain-priced beauty and you will love it.

CASE PRICE: £75



£26.00
£22.00

2018 Chorey-lès-Beaune, Les Bons Ores, Domaine Maratray-Dubreuil, Burgundy, France

My most ostentatious wine in the pack is a spectacular red Burgundy. Swig founder Robin Davis wrote the expression 'this nose is superior to many a £100 Vosne-Romanée' and I think he is spot on. Not only is this the silkiest and most sensual twenty

quid Burgundy I have seen this year, but it is so accurate, so precise and so downright classy. Just starting to drink well and with a good five years ahead this is an awesome discovery.

CASE PRICE: £132



£14.50
£12.50

2018 Langhe Nebbiolo, Elvio Tintero, Piemonte, Italy

I spend hundreds of hours every year tasting and writing about the great reds from Piemonte. My annual Report is well over 120000 words long and I feel I have a handle on what's going on. Then the Swig wines arrive and I discover a winemaker I have never heard of before!

This is the Swig way. This is a twelve quid Nebbiolo which tastes better than loads of overpriced Barolos. I cannot believe it and you will feel the same! Wow.

CASE PRICE: £75

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The art of doing nothing

Lockdown has made space in all our diaries for some daydreaming. Embrace it, says Chris Carter

Last week, we looked at the Japanese concept of *ikigai*, which, roughly translated, refers to your focus and drive, keeping busy, and what gets you out of bed in the morning. The Dutch concept of *niksen* is, on the face of it, the opposite. Literally the Dutch verb for “doing nothing”, *niksen* is about finding the time to consciously be idle by, for example, gazing out of a window. That “activity” is, according to a new book, *Niksen: Embracing the Dutch Art of Doing Nothing* by Olga Mecking, the quintessence of *niksen*, because, as Mark Smith puts it in *The Times*, “it can be performed at a moment’s notice without kit”. The Dutch even talk of *lekker nixen*, which means something along the lines of “doing nothing deliciously”. So, “stop all the clocks, cut off the telephone”, says Smith. “This lockdown the only thing on your leisure-time to-do list should be nothing... and feeling good about it.”

Make your not-to-do list

Doing nothing, of course, is easier said than done – especially in Britain, where being busy with work and spending time on self-improvement are venerated. “In the Netherlands, apparently it’s a common relaxation technique to stop whatever you’re doing and embrace nothing-ing,” says Katie Strick in the *Evening Standard*. “Here in the UK, the closest most of us get to switching off is scrolling through Instagram with a Calm podcast and calling it meditation. No wonder we’re all burnt out.” So, we must

close the laptop, put the phone out of sight, and embrace what Mecking calls “doing something without purpose”. You might even write a not-to-do list and thereby free up your diary for daydreaming. “Perhaps the Dutch are on to something: in this world of productivity and accounting for every second, finding the time to do nothing suddenly feels like the biggest achievement of all,” says Strick.

But what if *niksen* doesn’t come naturally to you? “Mecking is understanding,” says Anna Maxted in *The Daily Telegraph*. If you’re not the type who can do absolutely nothing, then draw, listen to music, do a jigsaw, squeeze a stress ball. The last thing Mecking wants is for anyone to feel “terrible about failing” at *niksen*. “Honestly,” says Mecking, “anything that helps

you relax is fine.” All it takes is a few minutes here and there. “Curiously,” adds Maxted, “I find that in the current conditions – when life feels tumultuous and exhausting, frenetic with constant change – a dash of *niksen* is priceless, and pleasingly organic.”



Head to the hills

In terms of travel, most of us are not currently able to do nothing in the spiritual home of purposeful idleness: Amsterdam, with its lovely canals and colourful gabled buildings, will have to wait, as will the fields of flowers and pretty windmills of the rest of the Netherlands. Fortunately, practising *niksen* at home is as easy as turning a cosy chair towards a window, as Mecking recommends, and gazing out at the leaves on the trees.

And what better time to start than now? “Autumn’s blaze of glory, all flame-red leaves and

burnt-gold foliage, offers an opportunity to marvel at the brilliance of the natural world before hunkering down for winter,” says Alexander Turner in *The Guardian*. As nature goes into hibernation, more people than ever are visiting wooded areas and arboretums. “The experience of lockdown has changed many people’s relationships with nature and will undoubtedly extend our

“Just turn a cosy chair to the window and enjoy the trees”

interaction with the arboreal beyond the traditional leaf-peeping season.”

That said, the trees in the Howardian Hills, in Yorkshire, are at their “multi-hued best in autumn – the dazzling yellow of ash, chestnut and lime leaves complementing the rich russet and golden tones of beeches and oaks,” says Mike Bagshaw in *Countryfile* magazine. “There are no big forests here but some sizeable woods and lots of clumps and copses – dark pillows lying on a rumpled patchwork-quilt landscape.” Clent Hills, in Worcestershire, is another “perfect spot to witness autumn colour”, says Sarah Turner in *The Observer*, as is Loch Lomond – “Glasgow’s most beautiful autumn hideaway”.



Autumn is a perfect time to visit Loch Lomond – Glasgow’s most beautiful autumn hideaway



Take time out to embrace “nothing-ing”

This week: properties for around £1.5m – including a Grade II-listed house with a wild-swimming pool in West Sussex



▲ **Antye House, Wivelsfield Green, Burgess Hill, West Sussex.** A Grade II-listed house set in more than an acre of landscaped gardens that includes a natural stone wild-swimming pool that will feature on *Grade Designs*. 5 beds, 4 baths, 3 receps, larder, utility, garage, studio, stores, gazebo, 1.08 acres. £1.5m Fine & Country 01273-739911.

▶ **Hillfoot House, Beenham, Reading, Berkshire.** A Grade II-listed property dating from 1737 that featured in Nikolaus Pevsner's *Buildings of England*. It has large sash windows, high ceilings, period fireplaces and a large country kitchen with Aga. 6 beds, 2 baths, 3 receps, library, garage, garden. £1.5m Strutt & Parker 0118-984 5757.



▶ **Old Droxford Station, Soberton, Hampshire.** A converted early 1900s train station. It retains the oak-panelled vaulted ceiling in the drawing room that was the waiting room and the original booth and cabinet from the ticket office, and the platform is now a covered veranda. 4 beds, 3 baths, 3 recaps, 1-bed signal box, garage/workshop with home office above, greenhouse, gardens, 2.5 acres. £1.5m Knight Frank 01962-677234.



sex, a converted train station in Hampshire and a thatched cottage on the River Wey



▶ **Belmont, Shrewsbury, Shropshire.** A Grade II-listed Georgian townhouse with landscaped gardens. Approached through a gated courtyard, the house retains flagstone and oak floors, sash windows, period fireplaces and a fitted kitchen with French doors leading onto the terrace. 5 beds, 3 baths, 3 receps, study, breakfast kitchen, wine cellar, cloakroom, store, terrace. £1.5m Savills 01952-239500.

▶ **Upper House, Craswell, Hereford.** A small country estate in the Brecon Beacons National Park. The barn conversion and spa building have been used as a boutique holiday letting business. 4 beds, 4 baths, recep with mezzanine library, pasture, woodland, 70 acres. £1.55m Strutt & Parker 01584-873711.



▶ **Heronwater, Bramshott, Liphook, Hampshire.** A thatched cottage on the River Wey with its own spring-fed lakes and landscaped gardens. It has a dining terrace overlooking the river, beamed ceilings, stone and terracotta floors, a large fitted kitchen leading onto a breakfast conservatory and a master bedroom suite with balcony. 4 beds, 2 baths, 3 receps, loft, double garage, 5 acres. £1.495m Clarke Gammon Wellers 01428 728900.



▶ **Raswell Cottage, Hascombe, Godalming, Surrey.** Originally two cottages dating from 1647, this family home is set in an Area of Outstanding Natural Beauty. It has beamed ceilings, wood-burning stoves and a recently added sitting room with vaulted ceiling and double doors leading onto the terrace. 5 beds, 3 baths, 3 receps, breakfast kitchen, utility, cloakroom, 1-bed guest annexe, terrace, garden, 1 acre. £1.5m Savills 01483-796800.

▶ **Novello Street, Fulham, London SW6.** A classic terraced house in some of the prettiest streets in Parsons Green. The house is in good condition throughout and has sash windows, period coving and a fitted kitchen with French doors leading onto the rear garden. 4 beds, 3 baths, recep, dining kitchen, front and rear garden. £1.495m Knight Frank 020-7751 2400.



Land Rover's superlative off-roader

The latest incarnation of the classic workhorse is as impressive as ever. Nicole Garcia Merida reports

The best 4X4 by far" was what they used to say at Land Rover and in most cases, its models still are, says Andrew English in The Daily Telegraph. This latest revamp of the classic Defender is no exception. It was already looking "pretty good" in the form of the long-wheelbase 110 model, but this shorter 90 version "is, if anything, even better". It has better dynamics, the same "lovely interior" and "looks terrific, too". It is also as much of a dab hand at "the tough jobs" as its forebears. After a test drive that "hailed me through a few miles of sopping, slippery mire that you wouldn't tackle on a goat with crampons... it didn't miss a beat". It's just as happy on a trundle to the shops. "Look out of the Defender's large front screen and a world of adventure and potential beckons, even on the humblest of drives."

On the road, the 90 feels fast, "a utility vehicle with sporty performance" rather than an SUV, says Tim Pitt of Motoring Research. It's "a riot in a muddy field", but with the right engine it can "out-run a hot hatchback" too. The automatic gearbox



Price: from £43,625. Engine: 1,998cc turbo petrol (£50,690). Power: 295bhp. Top speed: 119mph. 0-62mph: 7.1 secs.

is quick to respond and the engine sounds "throaty" and has "plentiful muscle to shrink the straights". Driving it feels like "an event". Just don't expect much more than 20mpg "if you get carried away".

The engine, while effective, lacks "manners", being short on refinement and sounding loud and coarse on the go, says Mike Duff of Car and Driver. But "to be fair", this is only really that noticeable because the rest of the car is so good. The 90 cruises "remarkably quietly" for something with such a blunt aerodynamic profile, the seating position is comfortable even after "long stints at the wheel" and the uncluttered dashboard is a "model of clarity". And although obviously smaller than the 110, the cabin

doesn't feel cramped, carrying up to six passengers comfortably.

The top-of-the-range model, with a new straight-six, three-litre petrol engine, developing 400bhp, is the one to have, says Paul Horrell in Top Gear, being the version that's "fastest on the road and the most capable off it". That engine may not be "exactly dripping with high-rev aural charisma", but it's "pretty smooth in the mid-ranges" and the eight-speed automatic gearbox "anticipates your needs well", overtaking smartly enough and delivering a dignified, supple and controlled ride. But it is off-road where the 90 excels. The engine "dispenses torque gingerly when you need to ease across slippery mud, but with vim when you're pointing up a precipitous slope". The traction is "awesome"; the wading depth "almost scary". Whatever the terrain, it "just paws along like a hippo. So don't stand in its way".

"It just paws along like a hippo. So don't stand in its way"

Wine of the week: a Burgundy with rakish swagger

2014 Maranges, 1er Cru La Fussièrre Rouge, Domaine Bachelet-Monnot, Burgundy, France
£25.49, justerinis.com



Matthew Jukes
Wine columnist

Marc and Alexandre Bachelet made their first wines in the 2005 vintage and I have bought and also written up their wines every year since. Their modern outlook and boundless energy coupled with their innate respect for their special *terroirs* have meant that, from a standing start, they are now regarded as one of the most accomplished domaines in the region. Their wines usually sell out during en primeur season each year (this wine was sold as a "future" in January 2016) and so it is very exciting to find this parcel of

brilliant wine at a highly advantageous price.

The 2014s were slow to emerge from their shells and, without the sweet fruit associated with a warmer vintage, many were quick to dismiss them as rigid and blunt, and Maranges is, perhaps, the least fashionable of all Côte d'Or villages. But it is home to a killer pair of Bachelet-Monnot wines, which both come from the



Premier Cru vineyard La Fussièrre. If you are unfamiliar with this wine, think of a smart Volnay and add some rakish swagger. Given half an hour to breathe, this pinot blossoms into a stunner and I cannot think of a finer value red Burgundy on the shelves today. Just to prove that the J&B 2014 trick is not a one-off, 2014 Les Tourelles de Longueville, Château Pichon-Baron, Pauillac (£32.69) is the claret equivalent of this Burgundy – utterly delicious and perfectly priced.

Matthew Jukes is a winner of the International Wine & Spirit Competition's Communicator of the Year (matthewjukes.com)

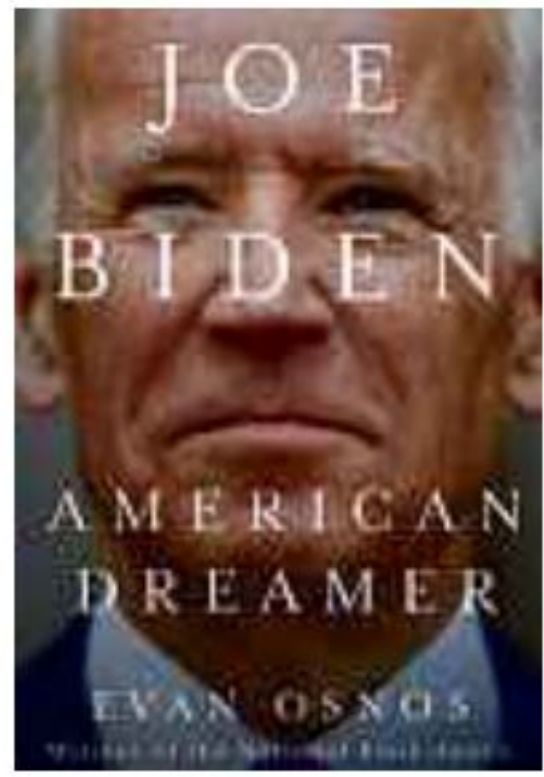
Book of the week

Joe Biden

American Dreamer

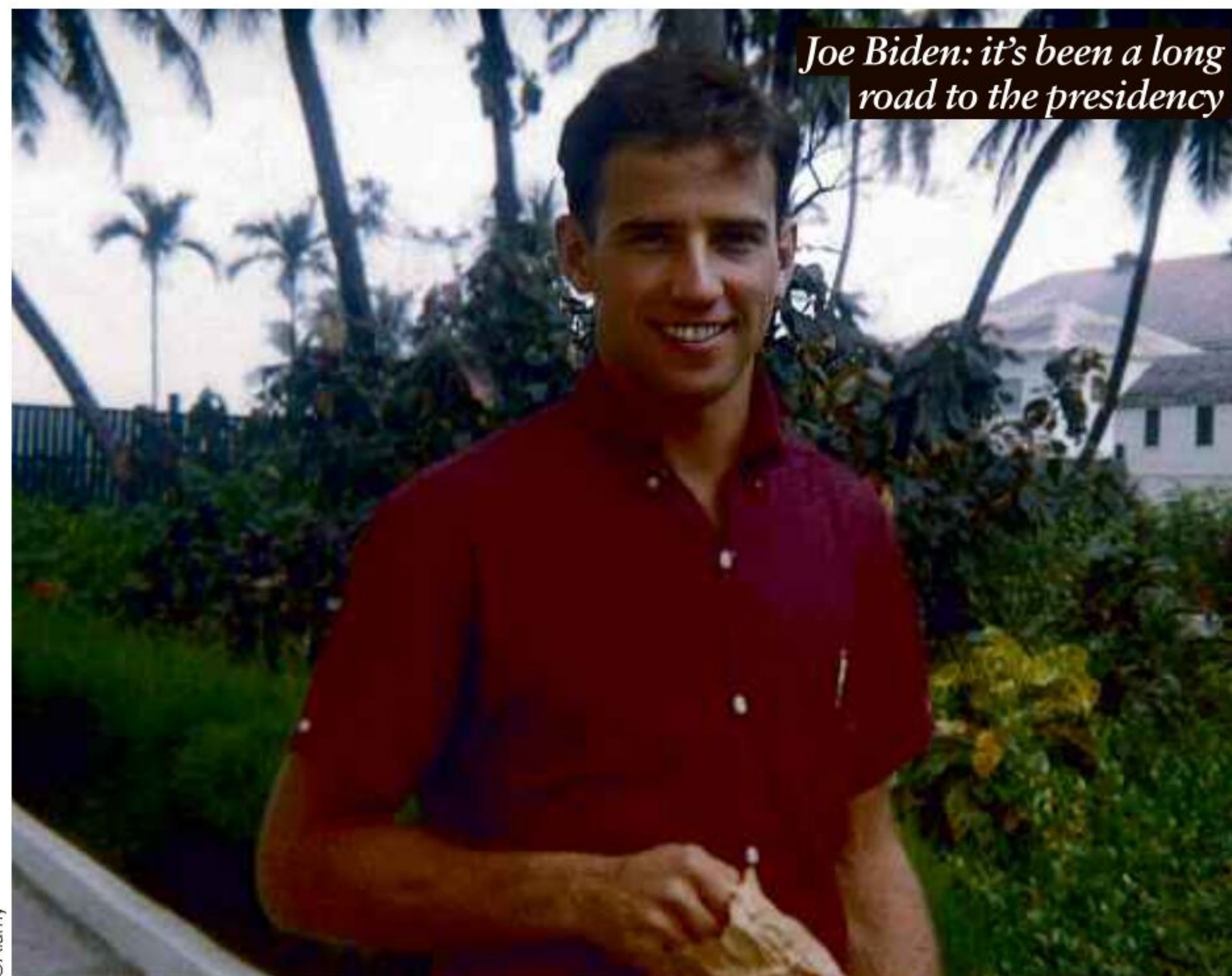
Evan Osnos

Bloomsbury Publishing, £18.99



This year's presidential election may have largely been a referendum on Donald Trump's time in office, but the fact remains that in just over two months Joe Biden will be inaugurated as the 46th president of the United States. And although Biden has already had a long political career, serving 36 years in the Senate, followed by eight years as Obama's vice-president, relatively little has been written about him. *Joe Biden: American Dreamer*, by journalist Evan Osnos, written shortly before Biden's victory, is the first major attempt to look at Biden's career and predict what type of president he will be.

American society is hugely polarised politically at the present time, but Biden has generally enjoyed positive approval ratings – most Republicans even fail to work up much anger against him. So Osnos's portrait of a fundamentally decent and honourable man, who comes from an age when both parties at least tried to find ways in which they could work together rather than sabotage each other, comes as little surprise. Although a veteran politician, Biden comes across as more connected with the average American than most Washington insiders, something



“Biden may be able to reclaim America's role as the leader of the free world”

that helped him retake the key swing states from Trump.

Still, this is no hagiography. Osnos notes that Biden's desire for compromise has left him open to charges that he is a bit insubstantial and puts consensus over principle. Certainly, many on the left of the Democratic Party were frustrated by some of the votes he cast during the Clinton era, and only reluctantly embraced him after he became their nominee. Biden subsequently worked hard to get them onboard, but some worry he may have gone too far, and made promises that are unrealistic given the Democrat's uncertain position in the Senate. It will also be hard for him to unify America if he gives into demands for investigations and prosecutions of Trump officials.

One interesting hint of what a Biden presidency may be like comes from the book's look at his time as Obama's number

two. While he generally kept a low public profile, the book argues that he developed very good personal relationships with a large number of world leaders, while remaining more realistic than many about the extent to which they could be trusted. This suggests that he may be able to reclaim America's role as the leader of the free world while reversing Trump's fawning approach to dictators.

Like its subject, *American Dreamer* lacks the drama, scandal and outrage of the numerous Trump biographies. But it is an excellent first draft that goes beyond the basics to provide hope that a Biden presidency will not only give us a respite from the chaos and division of the last four years, but will also deal with some of America's long-term problems.

Reviewed by
Matthew Partridge

Investing to Save the Planet

Alice Ross

Penguin, £14.99



The idea of “sustainability” is fashionable in investment circles right now – the notion that companies should focus on

their impact on society, as well as on their bottom line. Most of the books published on the subject, however, are primarily about how firms are responding to the pressure to be more sustainable. This book examines instead how the average investor can use their financial clout to change corporate behaviour while still making a decent return.

The book opens with a brief history of green investing, then explores various investment strategies. The rest of the book focuses on four key sectors: clean energy, planet-friendly transport, green agriculture and energy efficiency. It concludes with a look at the future of sustainable investment.

The book is worth a read and gives sensible advice. We would agree, for example, with the wisdom of making sure that your investments are appropriate for your financial circumstances, as well as with reading the small print of any scheme to ensure that you don't end up being a victim of “green washing”. The author also argues persuasively that there is a large overlap between those firms that are aware of their environmental impact and act accordingly and those that are well run. Still, it's hard to shake off the nagging feeling that the sudden mass conversion of firms and funds to this topic suggests that the enthusiasm for it may be a fad.

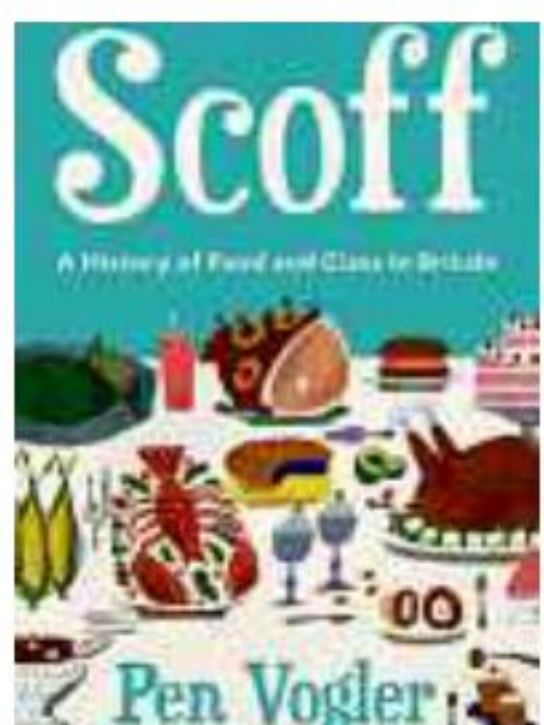
Book in the news... what your shopping basket says about you

Scoff

A History of Food and Class in Britain

Pen Vogler

Atlantic Books, £20



We may think we live in a democratic age, but food and class remain as “inextricably mixed” today as they were “when medieval barons dined ‘above the salt’, putting the lower orders in their place”, says Tony Rennell in the

Daily Mail. “What and how we eat, what we call our meals — tea, dinner, supper? — and where we take them — at a table, in front of the telly? — are indicators of where we stand (or, better still, sit) in the social order.” Indeed, we have always expended more

time and energy on judging people for what they eat and the way they eat it than on judging the quality of the food itself. *Scoff: A History of Food and Class in Britain*, by food historian Pen Vogler, tells the history of Britain's “ever-flourishing” class system through the lens of our attitudes to food.

Vogler claims the cultural value of food works on a “cycle of innovation-imitation-innovation”, says Kathryn Hughes in *The Guardian*. So new trends in eating begin with the social elite; then those trends are emulated by the people considered “a bit beneath” them; then the elites go searching for “something new to mark their superiority”. Vogler's intention, though, is not to scoff, but to throw light on the present “topsy-turvy” situation where “fresh”, “local”, “home-made” and “healthy” foods are eaten by the “wealthy few”, while “everyone else gets to eat cake —

shop-bought and ultra-processed and quite likely to kill you, in one way or another”.

Vogler's book is “sharp, rich and superbly readable”, and the author “loves to prick middle-class pretension”, says James McConnachie in *The Sunday Times*. She notes, for example, that the currently fashionable avocado is actually considered a lower-class fruit in Mexico, where it originates. Vogler wields language “brilliantly” and her pages are filled with the kind of “truth-skewering opinions that win reputations for restaurant critics”. Her “spiky” words are, however, balanced by her “deep knowledge of and affection” for British food traditions. She reveals why we eat what we do — and it is fascinating. “Most of us can ‘read a shopping basket as though it were a character sketch’, she says. We also use our baskets to tell ourselves — and everyone around us — who we are.”

Leave the gentlemen's clubs alone

Lonely old blokes need a place to call their own as much as anyone else

Given that true gentlemen always open doors for women, you might think it strange that many gentlemen's clubs remain men-only. Still, the days of such clubs may be numbered if lingerie entrepreneur Emily Bendell has her way. Several weeks ago she began legal action to get the 189-year-old Garrick Club, "whose members have included Charles Dickens, H.G. Wells, Laurence Olivier and John Gielgud", to overturn its ban on women becoming members, reports Valentine Low in *The Times*. Her lawyers argue that the ban, which allows women access to the club's services only on the "whim of a man", violates the Equality Act 2010.



Emily Bendell and the Garrick: her name's not down, she's not coming in

"If your tribe happens to be other barristers, actors and hacks who like their women elsewhere, the Garrick awaits"

A panty-selling publicity stunt?

This isn't the first challenge to the Garrick's exclusionary policies, says Celia Walden in *The Daily Telegraph*. Back in 2011 Lady Hale, the then president of the Supreme Court, expressed her dismay that so many of her colleagues belonged to the Garrick, and the club's current members voted to overturn the ban in 2015, though this fell short of the two-thirds majority needed. Still, Bendell's outrage seems hollow given that she herself has admitted to belonging to all-female clubs and networks in the past, and started her company with the help of funding from an investment group set up for women only.

Even if the rules are changed, Bendell is still unlikely to be let in, says Rebecca Hardy in the *Daily Mail*. All applications are scrutinised by a committee and her

business hawking underwear would almost certainly fail to "cut the mustard" with the "respected actors, politicians, journalists and lawyers" in the Garrick's membership. And you can't help but feel that Bendell is "as likely a fit with this iconic club as Rolling Stones wild man Keith Richards would be with the Women's Institute". Given that she hasn't even been inside the club as a guest, the whole thing rather looks like a "publicity stunt" that is designed to "sell more knickers".

It's true that the "dinosaurs" in the Garrick have an outdated view of women, says Laura Freeman in *The Spectator*. But the "stockinged rig-outs" of the models on the website of Bendell's company are arguably "more offensive". At least the Garrick "insists on jackets and collared shirts at all times". Besides, we are constantly encouraged to find our "tribe" and celebrate fellowship "with those who

love the things you love". If your tribe happens to be "other barristers, actors and hacks who like their preprandial Twiglets, their 18th-century paintings, their nursery puddings, and their women elsewhere", then "the Garrick waiting list awaits".

If the Garrick's members were still the sort of people "who run the country", Bendell might have a point, says India Knight in *The Sunday Times*. The embarrassing reality is that today most of the "antiquated" membership is made up of "florid old men" whose socialising has been cut down by "bereavement, grown-up children and retirement". For them, "trotting along to your club to sit in your nice old armchair and read the paper" is the highlight of the day. Why not leave them to it?

Quintus Slide

Tabloid money... weirdy beardy druids cannot halt progress

● **Watching *I'm A Celebrity... Get Me Out of Here!* on TV is a pleasure, says Karren Brady (pictured) in *The Sun* on Sunday. There are the contestants' personal journeys and, for some, it is a last-ditch attempt to breathe life into a flagging career. No doubt for others, the fees are a factor. "I have been invited ten times or more to participate in one or other of the celebrity shows, from the TV jungle to *Strictly* and from *Dragons' Den* to *Bake Off*. But I can tell you now that there is no fee large enough to get me to sign up... I don't consider myself a celebrity, and nor do I want to be one". Any celebrity status is a side product of the passion that goes into my work. "Yes, sure, I'm on the TV as part of *The Apprentice*, but I'm there in my capacity as a businesswoman and expert."**



● Peers have been conducting their parliamentary business online for months due to the pandemic. "But some things never change," says Andrew Pierce in the *Daily Mail*. "Amid a bloodbath in the wider economy, their pampered lordships still ran up an eye-popping £1.1m in tax-free allowances from their sittings earlier this year." New figures for April to June "reveal the same old snouts have been deepest in the trough". Lord Taylor of Warwick, for example, pocketed £2,268 – he was jailed for 12 months in 2011 for falsely claiming £11,277 in expenses. Labour's Baroness Uddin is now £3,240 richer thanks to your taxes. "She was suspended from the Lords for 18 months and repaid £125,000 in wrongly claimed accommodation expenses."

● After a 40-year battle, a £1.7bn tunnel to house the "notoriously busy A303", which currently runs close to Stonehenge, has been given the go-ahead. Everyone is happy except the "The Stonehenge Alliance", who call it "sacriligious", says Jeremy Clarkson in *The Sun*. "I accept that a few weird beard druids think the big old stones are sacred", but progress cannot be halted "just because someone in a smock wants to sing Kumbaya at the summer solstice." Besides, no one really knows what it was built for. "It could have been an early-days sex shop for all we know. Or a brothel." But the tunnel will be good for everyone. "Especially the druids, who'll now be able to sing Kumbaya every June without being drowned out by the sound of passing motorcyclists."

Bridge by Andrew Robson

The blocking clubs

Doing well to avoid 3NT, off the Spade suit, and finding the only makeable game contract on a 4-3 fit, you must decide what to do when West leads out his three top Spades.

Dealer North

Both-sides vulnerable

♠ AKQ104	♠ J76	♠ 853
♥ 86	♥ K32	♥ 10975
♦ K85	♦ AJ32	♦ Q1094
♣ 862	♣ AKQ	♣ 75

	N	
W		E
	S	

♠ 92	♠ 853
♥ AQJ4	♥ 10975
♦ 76	♦ Q1094
♣ J10943	♣ 75

The bidding

South	West	North	East
1♥	1♠	1♦	pass
4♥	pass	3♥*	pass

* Awkwardly placed, as he is unable to bid No Trumps for the lack of a Spade stopper. Opts to support, in spite of the lack of a fourth Heart.

This is a classic Loser-on-Loser position, and you discard a Diamond, a loser in any event. You need at all costs to avoid being forced to ruff in the long trump hand. At trick four, West switches to a Diamond and you win dummy's Ace. The problem is the Club blockage – how can you reach your fourth and fifth Clubs if trumps are, as expected, four-two?

Declarer made no mistake. He cashed the King of trumps and crossed to his Knave. Then, temporarily abandoning the suit, he cashed two of dummy's three top Clubs. A third one would have been ruffed by East, but declarer was not tempted to play it, seeing as he did a foolproof plan. He led over to his Ace-Queen of trumps and on the fourth round, he discarded dummy's blocking top Club (key play). He took the last three tricks with his three remaining Clubs. Ten tricks and game made.

Note, if West played a fourth Spade instead of switching to a Diamond (and East discarding a Club), you would ruff in dummy, play just one top Club, then play four rounds of trumps, discarding the two remaining blocking top Clubs from dummy.

For Andrew's three daily BridgeCasts, go to andrewrobsonbridgecast.com

Sudoku 1026

		7				4		
9		6	4					7
		4	8	1				
	1			2			7	
		9	7		4	1		
	4			8			6	
				3	8	5		
3					5	7		8
		8				6		

To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

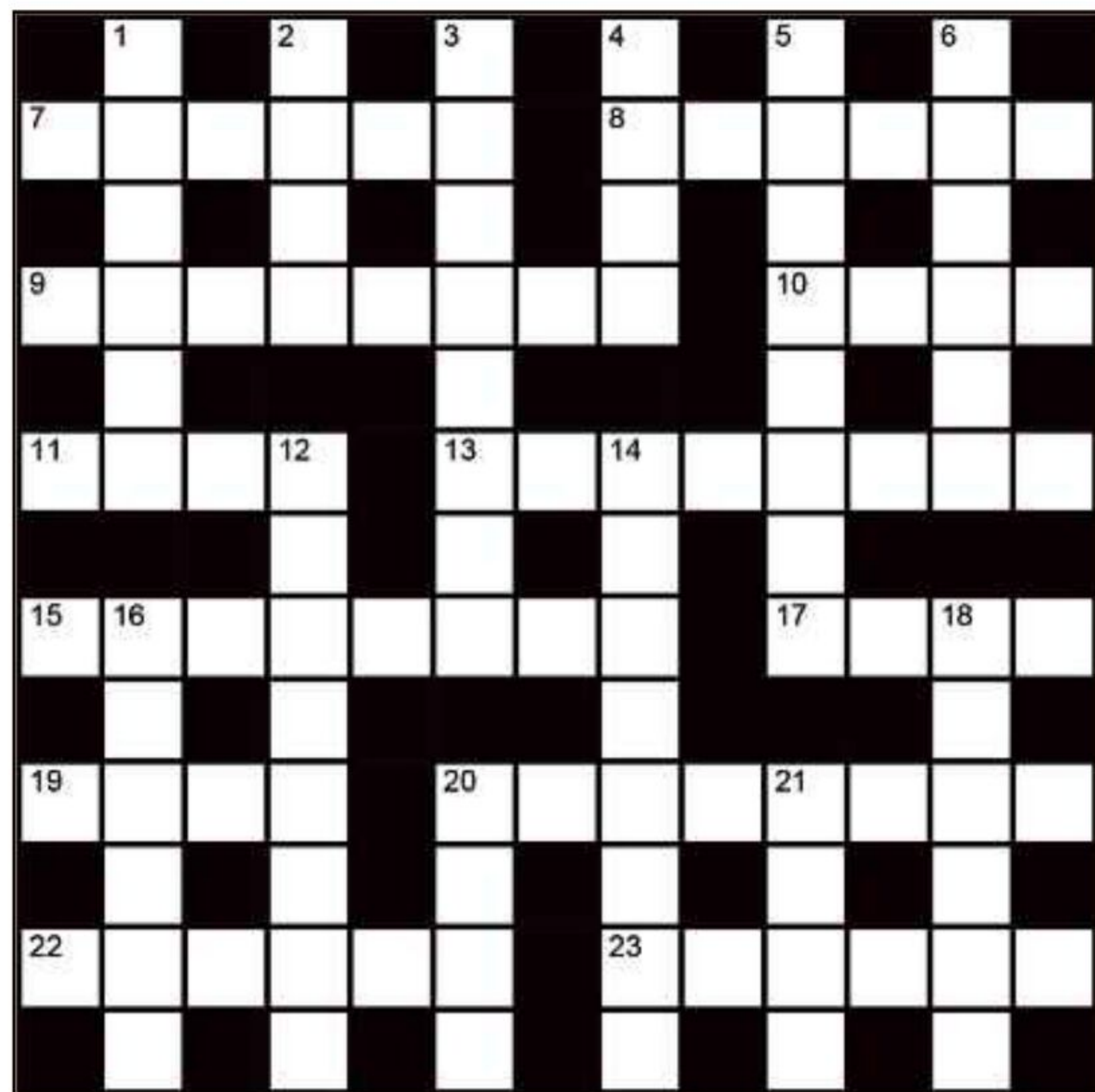
6	8	1	5	3	4	7	9	2
3	2	7	9	8	6	4	1	5
5	4	9	2	7	1	8	6	3
4	5	6	7	1	2	3	8	9
1	9	2	8	5	3	6	4	7
7	3	8	6	4	9	5	2	1
8	1	4	3	2	5	9	7	6
2	6	3	4	9	7	1	5	8
9	7	5	1	6	8	2	3	4

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moneyweek.com

Tim Moorey's Quick Crossword No. 1026

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 30 Nov 2020. Answers to MoneyWeek's Quick Crossword No. 1026, 31-32 Alfred Place, London, WC1E 7DP.



Half of the 24 answers are of a kind (5,3,6) given by an anagram of BRANDISHES CEPS. The remainder are mildly cryptic

ACROSS

- 7 (6)
8 (6)
9 (8)
10 Part of church
Welshman backed (4)
11 King who's upset Earl (4)
13 (8)
15 (8)
17 Coward, say at
present time (4)
19 (4)
20 (8)
22 (6)
23 (6)

DOWN

- 1 Threaten chaps with top card (6)
2 (4)
3 Person offering services entered
oddly on right (8)
4 Damage small vehicle (4)
5 (8)
6 150 remaining in lucky plant? (6)
12 Leery Tom worked from a distance (8)
14 School sports event one may have in
the bag? (4, 4)
16 Ladies can't stand going there (6)
18 Rubber used by writer as
error-prone (6)
20 (4)
21 Miss from Italy? Not entirely (4)

Name

Address

Solutions to 1024

Across 1 Fusspot f US spot 5 Armed anag 8 Double-parking two p = parking 9 Pas double def 10 Cold sweat anag 12 Shrimp s hr imp 13 Marvel double def 15 Raconteur anag 16 Yes hidden in eyestrain 18 American eagle anag 20 Messy homophone Messi 21 Dresser misleading def.

Down 1 Fed up 2 Squash rackets 3 Policeman 4 Tipple 5 Air 6 Maiden voyages 7 Digital 11 Sea breeze 12 Sarcasm 14 Reward 17 Steer 19 Ivy

The winner of MoneyWeek Quick Crossword No. 1024 is:
Jan Miles of Devon

Tim Moorey is author of *How To Crack Cryptic Crosswords*, published by HarperCollins, and runs crossword workshops (timmoorey.com)

Taylor's, a family firm for 325 years, is dedicated to the production of the highest quality ports. Late Bottled Vintage is matured in wood for four to six years. The ageing process produces a high-quality, immediately drinkable wine with a long, elegant finish; ruby red in colour, with a hint of morello cherries on the nose, and cassis, plums and blackberry to taste. Try it with goat's cheese or a chocolate fondant.



Normal service will be resumed

The virus and the Donald made voters anxious. Now they clamour for safety



Bill Bonner
Columnist

Hooray! A vaccine! The relief column is finally in sight! And soon, it will run off the fiendish Covid-19, releasing the world from months of fear, loathing, death and siege. In the US, we are told, millions still cower in their homes. Millions are still unemployed. And people are sore afraid. But the virus was never like the Black Plague. It was never any threat at all to the nation. And for individuals, it was never as big a threat as heart disease, cancer and the other big killers. The virus focused its most lethal attacks on the weakest part of the population – those in nursing homes. And from them, it stole little of their lives, simply because they had little left to steal.

And yet the threat of the virus – at least, after it was pumped up by health authorities and the sensationalist press – was in a class by itself. It has practically created a new religion, causing people to cover their faces, not as a prophylactic, but as an act of piety. No longer was it enough for the soul to have everlasting life; the body, too, must be spared.

We suspect that there is a great yearning in America for safety, for protection, for a panacea that will save us from all life's problems – especially the ones we make for ourselves. We, who no longer

"The trouble with the conservatives is that there aren't any"

trust in the Almighty, are ready to trust anyone, including Dr Fauci (America's Chris Whitty).

It was probably a desire to get back to normal that gave Joe Biden a slim margin of victory in the presidential election. Donald Trump made people nervous, anxious. Both conservatives and liberals wanted him out of the way. But the trouble with the liberals is that they really do think they can all live at each other's expense. And they see each passing fad as God's Eternal Truth. The trouble with the conservatives, on the other hand, is that there aren't any.

Trumpismo – a mixture of Big Man politics, money-printing, giveaways to favoured groups, and whatever comes into the Big Man's head – was not crushed out of the

Republican Party. The electorate did not reject Trump or his brand of politics. Instead, it affirmed its support – with more votes for Trump in 2020 than he got four years ago. Conservative principles – small government, constrained by the Constitution, balanced budgets, and honest money – were not on offer in the recent election. And if they had been, they almost certainly would have been rejected. It is just not their time.

But now, with a Washington insider poised to take the top job, the US will return to "normal" – the kind of big-spending, big printing "normal" that you get when a nation is in a steep decline. People will clamour for protection, for miracle drugs (at someone else's expense), for the ersatz safety offered by a corrupt government. They will get what they clamour for.



Face coverings have become an act of piety

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MoneyWeek, 31-32 Alfred Place, London WC1E 7DP
Tel: 020-3890 4060. Email: editor@moneyweek.com.

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The bottom line

\$10m How much actor **Johnny Depp** (pictured) will be paid (ie, his full fee) for working on *Fantastic Beasts 3*, despite filming only one scene, due to a "pay-to-play" provision in his contract, according to *The Hollywood Reporter*. Depp was asked to resign from the film after losing his high-profile court battle against *The Sun* this month. The role is to be recast.



\$68bn How much the world's five richest billionaires added to their fortunes in one day last week, according to Bloomberg. The world's top five billionaires are each worth at least \$100bn, according to the Bloomberg Billionaires Index. French luxury goods tycoon Bernard Arnault joined the club after last week's stockmarket surge.

\$133.3bn

The combined reported income of the highest-earning 1% of New

Yorkers in 2018, according to data recently released by New York's Independent Budget Office. They paid \$4.9bn in local income taxes, making up 42.5% of the total collected.

998 The number of carats in a white diamond from the Karowe Mine in Botswana by Lucara Diamond Corp, a small Canadian miner. In 2015, the same mine yielded the 1,109-carat Lesedi La Rona white diamond, which sold for \$53m two years later.

£9.50 The new hourly "real living wage" which is voluntarily paid to those

aged 25 and over (£10.85 in London), an increase of 20p (and 10p), and not to be confused with the statutory National Living Wage of £8.72 (£10.75). A fifth of UK employees are paid less, says the Living Wage Foundation.

£143,000 The cost of a silvered bronze statue created by Maggi Hambling for the 18th-century writer, Mary Wollstonecraft, on a green in north London. It had taken a decade to raise the money for the work. Critics accused the artist of failing to honour "the mother of feminism".

© Alamy

SIPPs | ISAs | Funds | Shares



GET INVESTING

and now get
cashback too

Consolidate your
pensions with us
and we'll reward
you with at least
£100 cashback

youinvest.co.uk/cashback

Terms and conditions apply.
Capital at risk. Pension rules apply.
Check you won't lose out by transferring.





People see the number, not the man.

Starting at 61 was tough. I was worried about getting another job. Then Amazon hired me and I haven't looked back. Now I'm passing on my experience to some of the young'uns, makes me feel proud. I might be a grandpa, yet I've got a lot to give.

Melvyn, Manchester.



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